Independent Research. Poverty Solutions. Better DC Government.

REPORT MAY 25, 2017

Economic Powerhouse:
DC Is Growing Faster than the Region

By Chaz Rotenberg and Ilana Boivie

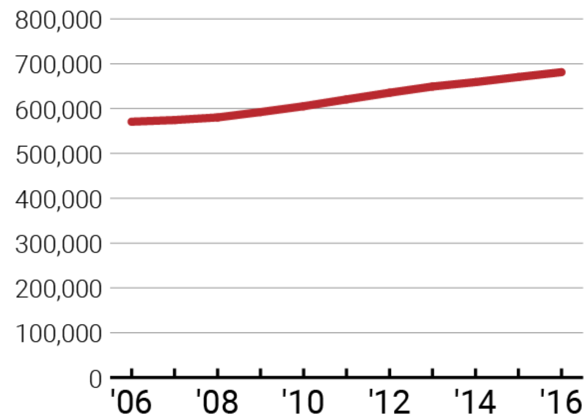
The DC economy is strong and increasingly diverse, with impressive improvements in a number of indicators over the past decade. The District is now a clear engine of economic vitality in the region, with the city outperforming the rest of the region in many ways.

The District's population is growing, and net migration from the city to surrounding counties has fallen sharply. The number of jobs in DC is growing, driven almost entirely by private-sector jobs, meaning that the economy is becoming more diverse and less reliant on the federal government. Job growth in DC has been faster than in the rest of the region.

This robust growth comes at the same time as the District has adopted policies to improve working conditions for lower-wage workers, including increases to the minimum wage and requiring all employers to provide paid sick leave. Job growth has been strong in DC's retail and food service sectors, industries that are affected by the minimum wage increase. This suggests that the DC economy has been strong enough to absorb additional labor standards to help workers.

FIGURE 1.

DC Population Growth Has Accelerated In Recent Years



Source: State Population Estimates (Vintage 2016) and Intercensual Population Estimates (2000-10), US Census Bureau.

DC FISCAL POLICY INSTITUTE | DCFPI.ORG

SUMMARY

- The District's population is growing and outpacing the suburbs.
- Jobs are growing—and at a faster rate than in the rest of the region—including in the retail and food service industries.
- That job growth has been driven almost entirely by the private sector.
- Median earnings have risen in the District in recent years, while they have declined in the region as a whole.
- Since the minimum wage increase, hourly wages are increasing faster for DC's lowest-income earners than for other workers.
- The number of hotel rooms is growing, though hotel employment has dipped slightly.
- Corporate profits continue to increase at dramatic levels.

The District's Population Continues to Grow, and Fewer Residents Are Leaving for the Surrounding Counties

DC's population reached 681,000 in 2016, a gain of nearly 11,000 residents over the previous year. This continued a decade-long streak of population growth since 2006. The District has added roughly 11,000 new residents on average each year since then (*Figure 1*).

The District's population growth has outpaced the surrounding counties over the last five years. Between 2011 and 2016, DC's population grew nearly 10 percent. None of DC's surrounding counties[1] grew more than 7 percent (*Figure 2*).

The District's population growth reflects a mix of natural increases (births minus deaths) and new residents moving into the city. Natural increases accounted for 39 percent of DC's population growth over the past decade. Net migration into DC composed 61 percent of the growth, divided about evenly between international and domestic migration. In 2007, more residents moved out of DC than moved in, yet by 2016, net migration was the largest source of DC's population growth (*Figure 3*).

The uptick in net migration reflects the fact that fewer households[2] are leaving the District for the neighboring jurisdictions.[3]

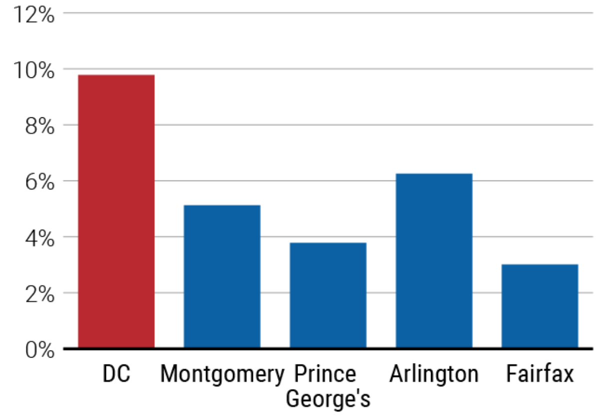
- Each year between 2000 and 2009, over 1,000 more households moved out of DC to the suburbs than vice versa. But by 2011, household net migration had shrunk substantially (*Figure 4*).
- Net migration of households to DC from the suburbs tilted positive for the first time in recent years in 2015.

This suggests that the District is an increasingly attractive place to live, and is competing successfully for residents with surrounding jurisdictions.

FIGURE 2.

DC's Population Growth Outpaces Surrounding Counties

Percent change in population by county, 2011 to 2016.

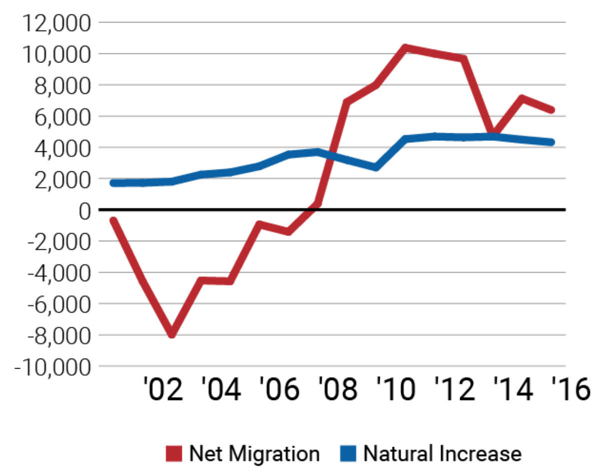


Source: County Population Estimates as of July 1, US Census Bureau.

DC FISCAL POLICY INSTITUTE | DCFPI.ORG

FIGURE 3.

Net Migration Overtakes Natural Increases for DC Population Growth



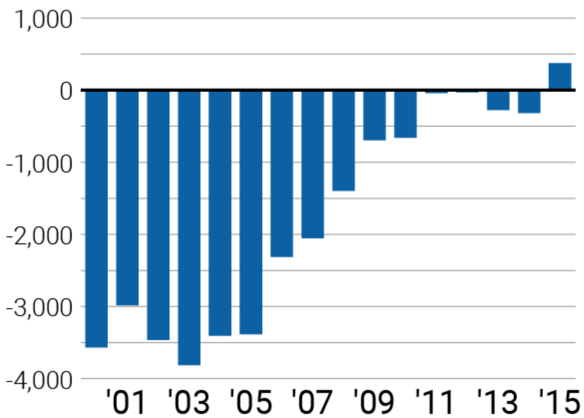
Note: Natural increase equals births minus deaths.
Source: Components of Population Change (Vintage 2016 and Vintage 2010 Estimates), US Census Bureau.

DC FISCAL POLICY INSTITUTE | DCFPI.ORG

FIGURE 4.

DC Is Losing Fewer Households to Surrounding Counties

Net migration of households (individual income tax returns) to DC from surrounding counties.

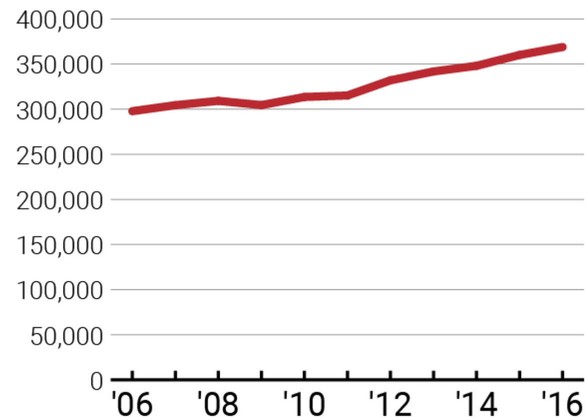


Note: Surrounding counties includes: VA: Alexandria City, Arlington County, Fairfax City, Fairfax County, Falls Church City; MD: Motgomery County, Prince George's County. See report endnotes for additional notes about these figures.
Source: Statistics of Income Division, US Internal Revenue Service.

DC FISCAL POLICY INSTITUTE | DCFPI.ORG

FIGURE 5.

DC Resident Employment Grew 24 Percent Over the Past Decade



Note: Figures are annual averages.
Source: Local Area Unemployment Statistics, US Bureau of Labor Statistics.

DC FISCAL POLICY INSTITUTE | DCFPI.ORG

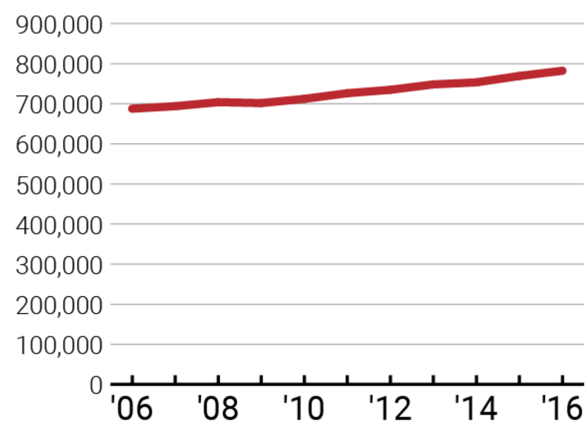
DC Job Growth Is Healthy and Stronger Than In the Rest of the Region

There are two ways to assess job growth in the District: resident and total employment. Both measures indicate that the city is enjoying strong employment growth.

- **DC resident employment**: This represents the number of District residents who are employed, whether inside or outside of the city. DC resident employment grew 24 percent over the past decade, with particularly strong growth since 2011 (*Figure 5*).
- **Total employment in DC**: This represents the number of people working in the District, whether they live here or not. Total employment in the District grew from 688,000 in 2006 to 782,000 in 2016—a 14 percent increase. DC employment has increased every year since 2009 (*Figure 6*).

FIGURE 6.

Total Employment in the District Is Growing Steadily



Note: Figures are annual averages.
Source: Current Employment Statistics, US Bureau of Labor Statistics.

DC FISCAL POLICY INSTITUTE | DCFPI.ORG

Employment growth in the District has outpaced the rest of the region over the last decade.[4] Employment elsewhere in the region grew 6 percent in the last decade, less than half the rate of DC (*Figure 7*).

Private Sector Job Growth Is Carrying the DC Economy

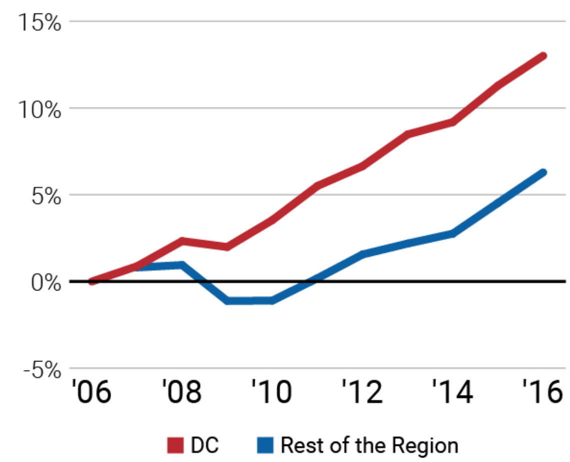
The growth in total employment in the District has been driven by the growing number of jobs in the private sector. The diversifying DC economy is a sign that the city has become much more than a "government town," and that DC is a conducive environment for robust private sector growth.

- Private sector employment in DC increased by about 88,000 jobs from 2006 to 2016—a 19 percent increase over the decade. The rate of private sector job growth over the previous year accelerated starting in 2011(*Figure 8*).
- By contrast, government jobs have grown more slowly over the past decade, especially since 2011, and growth has been sporadic. Beginning in 2011, private sector job growth over the previous year has outpaced the public sector (*Figure 9*).
- The increase in private sector jobs amounts to 93 percent of DC's total increase in employment since 2006.

FIGURE 7.

Employment In DC Is Growing Faster Than In the Rest of the Region

Percent change in employment since 2006.

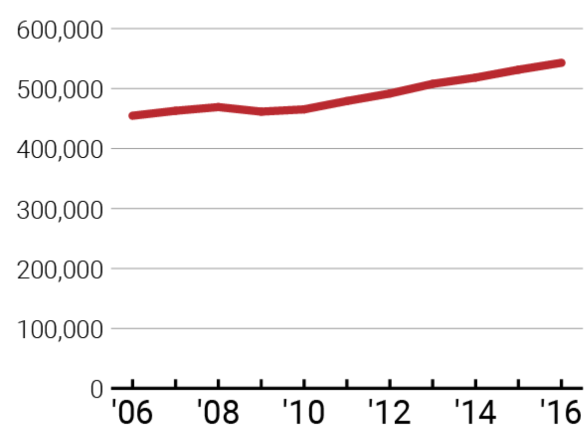


Note: Percent change calculated from anuual average total employment. Rest of the region refers to the Metropolitan Statistical Area minus DC.
Source: Current Employment Statistics, US Bureau of Labor Statistics.

DC FISCAL POLICY INSTITUTE | DCFPI.ORG

FIGURE 8.

Private Sector Jobs Substantially Increased In DC Since 2009



Note: Figures are annual averages.
Source: Current Employment Statistics, US Bureau of Labor Statistics.

DC FISCAL POLICY INSTITUTE | DCFPI.ORG

DC's Retail Trade and Food Service Jobs Have Been Steadily Increasing, and Have Outpaced the Rest of the Region

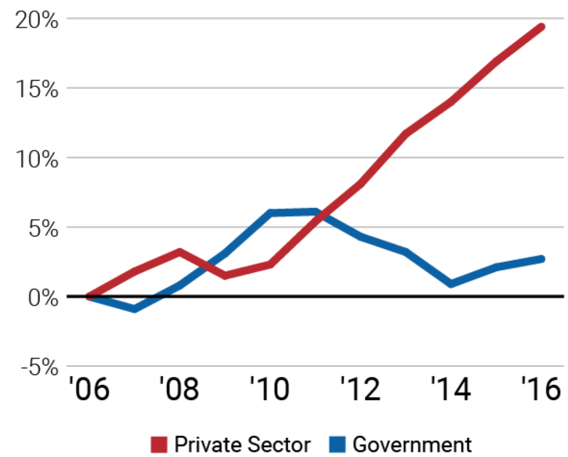
Jobs in both retail and food service in the District are generally growing faster than they had in previous years, and are growing faster in DC than they are in the rest of the region. Retail and food service are two critical segments of DC's economy, and they also include a number of lower-wage jobs. They therefore are industries that were affected by DC's minimum wage increases, which started to be implemented in July 2014.[5] The fact that the retail and food service industries are growing in DC suggests that the minimum wage increases have not had a notably adverse impact on the growth of those industries.

- Retail employment in the District grew 26 percent between 2006 and 2016. Retail jobs increased each year in the past decade, except for a dip in 2009 due to the Great Recession. Retail employment has increased especially rapidly over the past four years (*Figure 10*).
- Post-recession, DC's retail job growth has generally outperformed the rest of the region. Retail employment in DC grew 31 percent between 2009 and 2016, compared with just 9 percent elsewhere in the region (*Figure 11*).
- Food service jobs increased 58 percent between 2006 and 2016. Growth in DC's food service employment accelerated in 2011, when jobs in the industry grew 8 percent over the previous year (*Figure 12*).
- Annual employment growth in DC's food service industry has been stronger than in the rest of the region every year since 2009, except for 2016, when the increase in food service jobs over the previous year was 1 percent in DC and 2 percent elsewhere in the region. Over the entire period of 2009 to 2016, food service employment in the District grew 42 percent, nearly double the rest of the region's 23 percent growth (*Figure 13*).

FIGURE 9.

Private Sector Job Growth Outpaces Government Job Growth in DC

Percent change in employment since 2006.

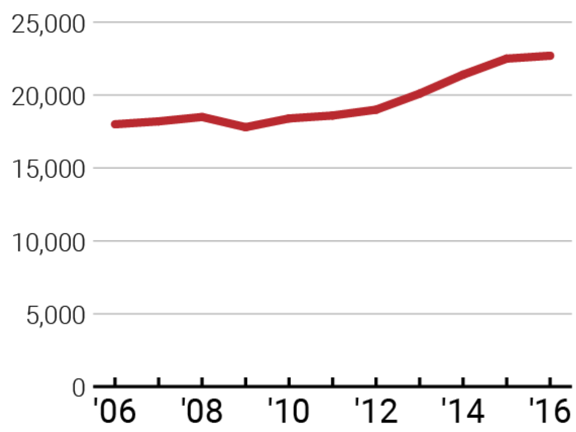


Note: Percent change calculated from anuual average employment.
Source: Current Employment Statistics, US Bureau of Labor Statistics.

DC FISCAL POLICY INSTITUTE | DCFPI.ORG

FIGURE 10.

DC Retail Jobs Have Grown Substantially Since 2012



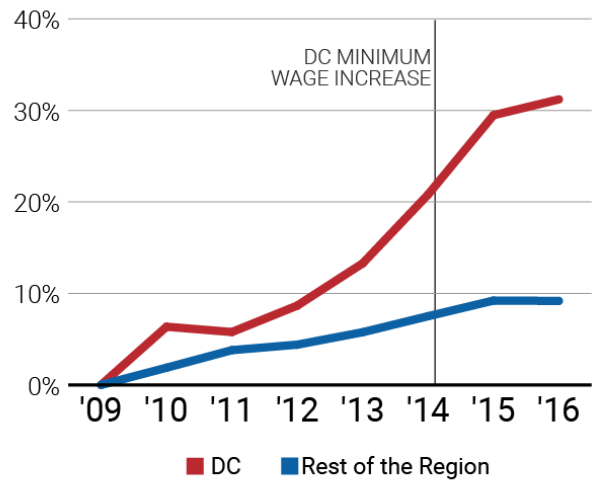
Note: Figures are annual averages.
Source: Current Employment Statistics, US Bureau of Labor Statistics.

DC FISCAL POLICY INSTITUTE | DCFPI.ORG

FIGURE 11.

Retail Jobs Grew More In DC Than In the Rest of the Region

Percent change in July retail trade employment since 2009.

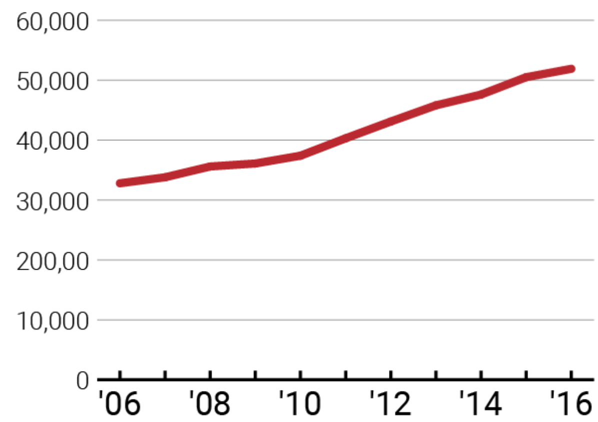


Note: The DC minimum wage increase took effect July 2014. Percent change calculated from July employment in Retail Trade (NAICS 531). Rest of the region refers to the Metropolitan Statistical Area minus DC.
Source: Current Employment Statistics, US Bureau of Labor Statistics.

DC FISCAL POLICY INSTITUTE | DCFPI.ORG

FIGURE 12.

Food Service Jobs in DC Have Steadily Increased In Recent Years



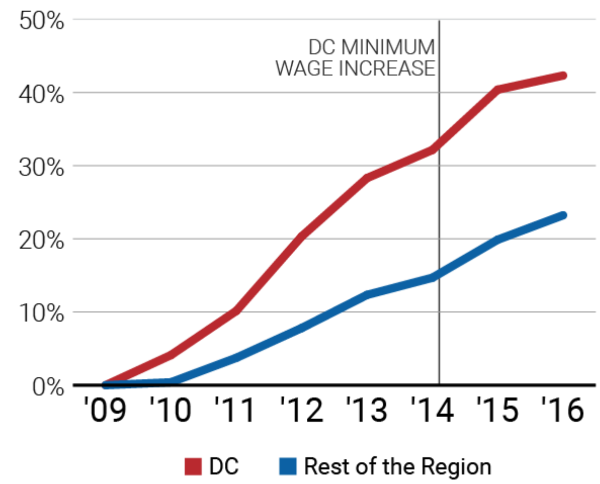
Note: Figures are annual averages for NAICS 722, Food Services and Drinking Places.
Source: Current Employment Statistics, US Bureau of Labor Statistics.

DC FISCAL POLICY INSTITUTE | DCFPI.ORG

FIGURE 13.

Food Service Jobs Grew More In DC Than In the Rest of the Region

Percent change in July food service employment since 2009.



Note: The DC minimum wage increase took effect July 2014. Percent change calculated from July employment in Food Services and Drinking Places (NAICS 722). Rest of the region refers to the Metropolitan Statistical Area minus DC.
Source: Current Employment Statistics, US Bureau of Labor Statistics.

DC FISCAL POLICY INSTITUTE | DCFPI.ORG

DC Hotel Industry Is Expanding, but Jobs Are Slowing

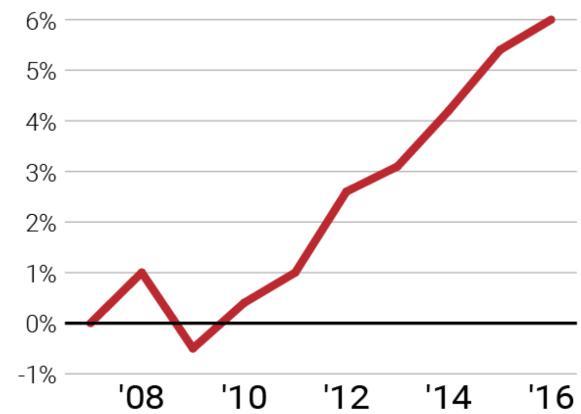
Hotels are an important part of DC's hospitality industry, and several indicators show robust growth in DC hotels over the last decade. This is a sign of an increasing number of people visiting the District. However, despite generally robust growth, employment in DC hotels has actually shrunk over the past decade.

- DC hotel revenue increased 13 percent in the last decade after adjusting for inflation, with most of the increase occurring since 2014.[6]
- Hotel room occupancy rates (the share of hotel rooms that are booked) increased from 74 percent in fiscal year 2007 to a peak of 78 percent in 2016. The occupancy rate has increased every year since 2009 (*Figure 14*).
- The total number of hotel rooms in the District has increased 14 percent since fiscal year 2006, to a peak of 30,250 in 2016 (*Figure 15*).
- Employment in the hotel industry has shrunk somewhat since 2006. The accommodations industry has shed several hundred jobs over the past decade (*Figure 16*), a drop of 2.6 percent.

FIGURE 14.

DC Hotel Occupancy Has Increased Since FY 2009

Percent change in hotel room occupancy rate since fiscal year 2007.



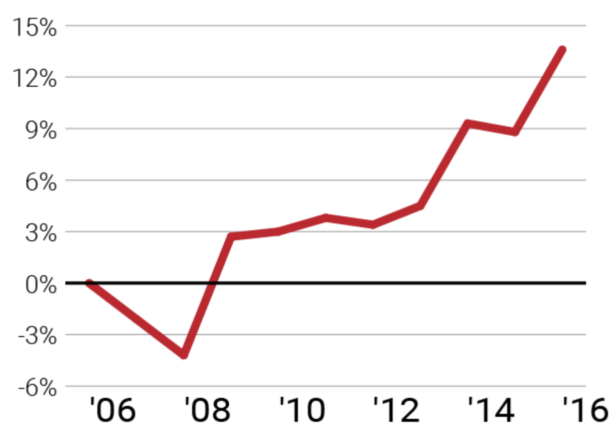
Source: Economic & Revenue Trends Reports, DC Chief Financial Officer.

DC FISCAL POLICY INSTITUTE | DCFPI.ORG

FIGURE 15.

More Hotel Rooms In DC Each Year Since FY 2007

Percent change in available hotel rooms since fiscal year 2006.



Source: Economic & Revenue Trends Reports, DC Chief Financial Officer.

DC FISCAL POLICY INSTITUTE | DCFPI.ORG

Wage Growth Shows a Strong DC Economy, Especially When Compared to the Rest of the Region

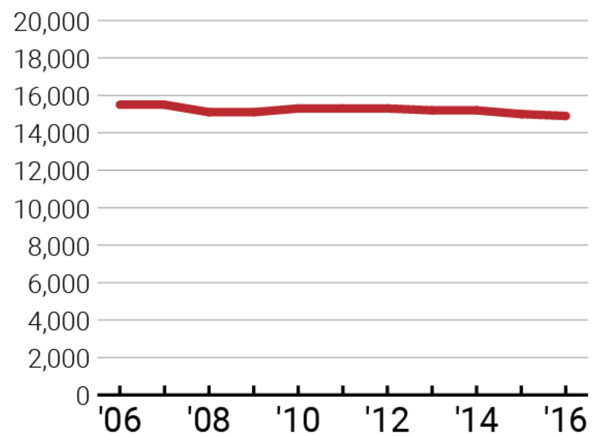
Given that the number of jobs in DC is growing, as is the number of DC residents with jobs, it is not surprising that wages also are increasing:

- **Wages earned in DC are growing:** The earnings of people who work in the District have increased 21 percent over the past decade, adjusting for inflation, from $59 billion in 2006 to $71 billion in 2016 (*Figure 17*). The wages earned in the District have grown especially rapidly since 2014.
- **Earnings of DC residents are growing:** The annual earnings of the typical (or median) working DC resident have grown since 2005, while median earnings fell for workers in the region as a whole. Median earnings refers to the 50^{th} percentile—meaning that half of workers earned more, and half of workers earned less. In 2006, the median earnings of DC residents was $5,500 below the region. By 2015, DC's median earnings had risen $3,600 above median earnings for the region—a statistically significant difference (*Figure 18*).

This reversal reflects the fact that median earnings grew 17 percent for DC resident workers over the past decade, while falling 4 percent for the region, after adjusting for inflation. It should be noted that due to data limitations, these figures compare DC with the entire region, which includes the District itself. If DC were compared with the suburbs only, the difference in median earnings would be even greater.

FIGURE 16.

Hotel Industry Jobs Down Somewhat In DC Since 2006



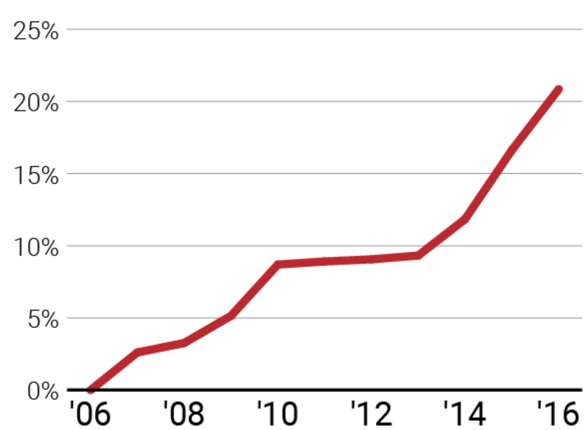
Note: Figures are annual averages for NAICS 721, Accomodation.
Source: Current Employment Statistics, US Bureau of Labor Statistics.

DC FISCAL POLICY INSTITUTE | DCFPI.ORG

FIGURE 17.

Wages Earned in DC Rose Over 20 Percent In Past Decade

Percent change in wages and salaries earned in DC since 2006.



Note: Percent change calculated from figures adjusted for inflation to equal 2016 dollars.
Source: US Bureau of Economic Analysis.

DC FISCAL POLICY INSTITUTE | DCFPI.ORG

The Minimum Wage Increase Has Benefited DC's Lowest Earners

The wages of the lowest-paid workers in the District have risen in recent years, after falling for more than a decade. This may indicate that the recent increases in DC's minimum wage, which started in July 2014, are helping these workers, and ensuring more equitable distribution of wage growth.

The mean hourly wage for people working in the District increased 13 percent over the past decade after adjusting for inflation, reaching $39.88 in 2016. Yet wage growth has not been shared equally.

DC's lowest earners—those at the 10th percentile of wage earners—saw their hourly earnings fall 1.2 percent over the last decade, adjusting for inflation. (The 10th percentile means that 10 percent of workers earn less per hour.) Meanwhile, the highest-paid earners—those at the 90th percentile—saw a 9.6 percent increase in their wages (*Figure 19*).

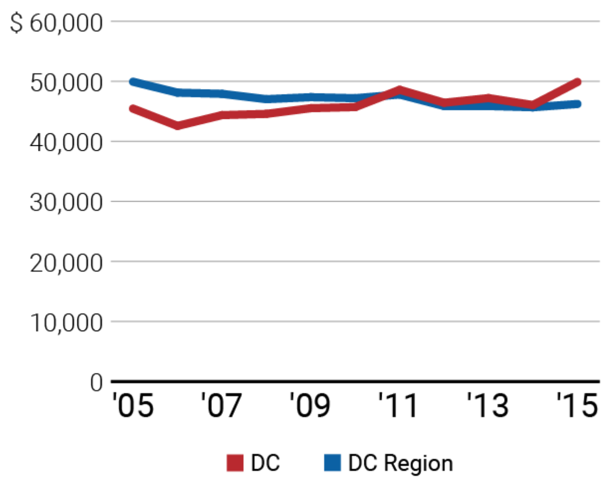
However, this trend has changed in the last three years, with low-wage workers experiencing the largest gain of any group since 2014. The hourly wage of workers rose 3.8 percent between 2014 and 2016 for DC workers at the 10th percentile of earnings,[7] compared with increases of no more than 3.4 percent for workers at other parts of the earning distribution. (*Figure 20*).

This suggests that the minimum wage increase—which began going into effect in 2014—has not only helped those at the lowest end of the income spectrum earn more in wages, but it has also made hourly wage gains more equal for all people working in the District.

Because we compare the full decade versus the last three years of the same time period, wages may have declined even further without the minimum wage increase.

FIGURE 18.

DC Surpasses Region in Annual Median Earnings



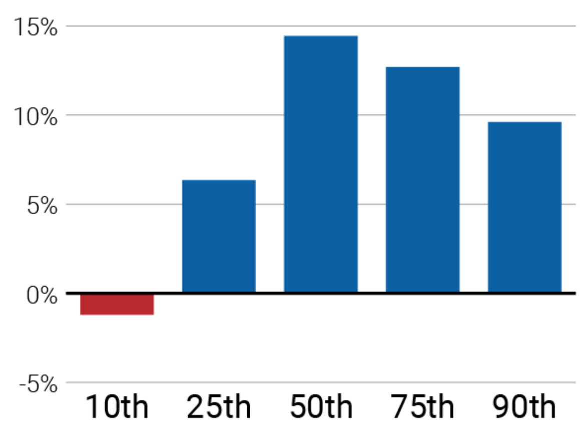
Note: Median earnings for individuals aged 16 and over. Figures adjusted for inflation to equal 2015 dollars. DC region is the Metropolitan Statistical Area.
Source: American Community Survey 1-year estimates.

DC FISCAL POLICY INSTITUTE | DCFPI.ORG

FIGURE 19.

DC's Lowest Earners Saw Wage Loss Over the Past Decade

Percent change in hourly wage by wage percentile, 2006 to 2016.



Note: The DC minimum wage increase took effect July 2014. Percent change calculated from figures adjusted for inflation
Source: Occupational Employment Statistics, US Bureau of Labor Statistics.

DC FISCAL POLICY INSTITUTE | DCFPI.ORG

"Soaring Business Profits"

With such robust growth in the private sector, it may be unsurprising that corporate profits continue to rise. DC's recent revenue forecast shows that business income tax revenue for fiscal year (FY) 2017 is $47 million higher than previously projected, and $38 million higher for FY 2018, partly due to "soaring business profits,"[8] which are at an all-time high.

These higher-than-expected corporate tax revenues come at a time when the District has been systematically cutting business franchise taxes (among other tax and broader economic changes). Since 2015, the business income tax rate has been reduced from 9.975 percent to 9.0 percent—at a total cost of $41 million per year.[9] In other words, even with a substantial reduction in the tax rate, overall revenue from corporate profits continues to increase.

It should be noted that the tax cut triggers that will go into effect this year (if the DC Council does not change the policy), will further reduce the tax down to 8.25 percent—for an additional revenue loss of $28 million.

Conclusion

Virtually every economic measure indicates that DC's economy is in great shape. DC government should do all that it can to ensure that all DC residents are able to share in the city's prosperity.

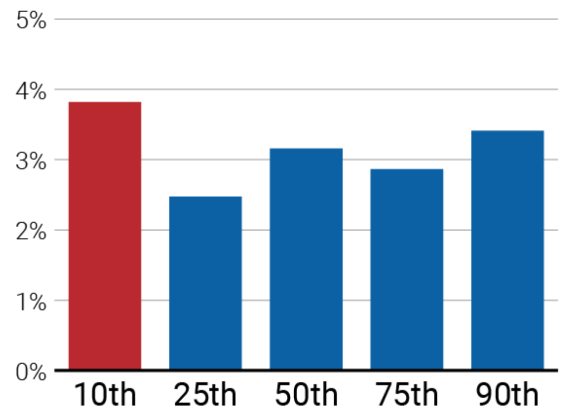
This means reforming adult education and job training programs to meet private sector demands and refocusing attention on those residents who have had the most difficulty in finding employment.

It also requires ensuring that all DC jobs are quality jobs, through policies such as paid family leave and fair scheduling. Certainly, with an economy this strong, businesses can absorb these changes to ensure more equitable growth for all.

FIGURE 20.

Since Minimum Wage Increase, Large Wage Gain for DC's Lowest Earners

Percent change in hourly wage by wage percentile, 2014 to 2016.



Note: The DC minimum wage increase took effect July 2014. Percent change calculated from figures adjusted for inflation
Source: Occupational Employment Statistics, US Bureau of Labor Statistics.

DC FISCAL POLICY INSTITUTE | DCFPI.ORG

[1] Counties analyzed are Prince George's County and Montgomery County, Maryland; Arlington County and Fairfax County, Virginia.

[2] This section uses Internal Revenue Service tabulations of county-to-county migration. The tabulations come from data on year-to-year address changes reported on individual income tax returns. Tax returns approximates households, though it is worth noting that households who are not required to file federal income taxes are not included in the data, so seniors and the poor are under-represented. Moreover, prior to 2012, only households who filed prior to late September were included in the data. Most who file after that date have been granted an extension, likely because they have complex returns and high income, so the migration data for 2011 and prior years set may under-represent the very wealthy.
For more on the methodology and limitations of IRS migration tabulations, see:
"U.S. Population Migration Data:
Strengths and Limitations," 2009,
https://www.irs.gov/pub/irs-soi/99gross_update.doc
"SOI Migration Data: A New Approach," 2015,
https://www.irs.gov/pub/irs-soi/soi-a-inmig-id1509.pdf

[3] Prince George's County and Montgomery County, Maryland; Alexandria, Arlington County, Fairfax City, Fairfax County, and Falls Church, Virginia.

[4] Throughout this paper, rest of the region refers to the Washington Metropolitan Statistical Area (MSA) minus DC. The Washington MSA includes the following jurisdictions: Virginia: Arlington, Fairfax, and Loudoun Counties; Alexandria, Fairfax, Falls Church, Manassas, and Manassas Park Cities; Maryland: Calvert, Prince William, Charles, Stafford, Frederick, Montgomery, and Prince George's Counties; West Virginia: Jefferson County.

[5] While this section uses annual average employment when referring to trends between 2006 and 2016, in order to facilitate comparisons in employment growth before and after DC's minimum wage increase (which took effect in July 2014) the section refers to July employment when comparing DC to the rest of the region between 2009 and 2016.

[6] Economic and Revenue Trends Reports, DC Chief Financial Officer, https://cfo.dc.gov/node/232252

[7] BLS Occupational Employment Statistics (OES) data are a mix of panels from 2011-2014. Data from the Current Population Survey concur with the upward trend in DC wages from 2014-2016.

[8] Economic and Revenue Trends Reports, DC Chief Financial Officer, https://cfo.dc.gov/node/232252

[9] Ibid.