

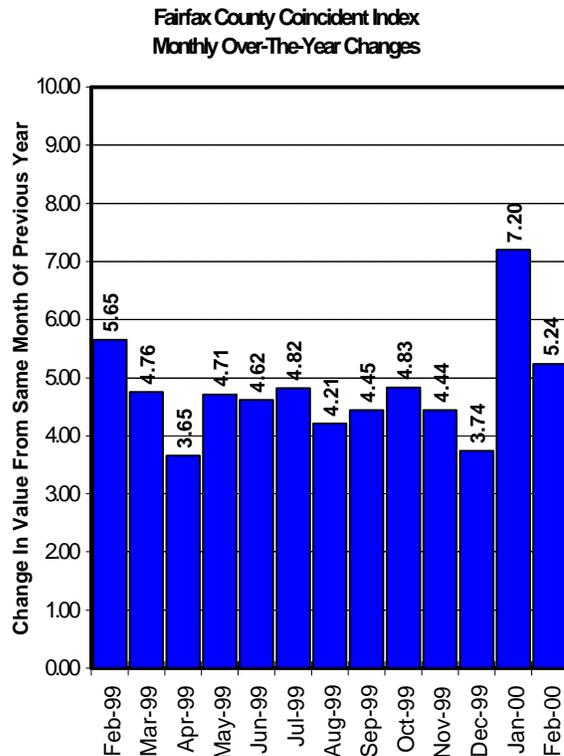
Fairfax County Economic Index

County Economy Showing Early Signs of Slower Future Growth

The **Fairfax County Coincident Index**, which represents the current state of the County's economy, decreased 1.0 percent to 125.8 in February and has now been negative in two of the last three months and in six of the last 12. It should be noted that February's decline is substantially overstated by a data reporting problem that distorted the decline in February's retail sales tax receipts. Despite the declines in February and December, the Index continues to track a strong positive trend gaining 4.4 percent over the February 1999-February 2000 period and remains well above its historic 12-month moving average trend line. In February, the entire decrease in the Index was attributed to the decline in retail sales tax receipts.

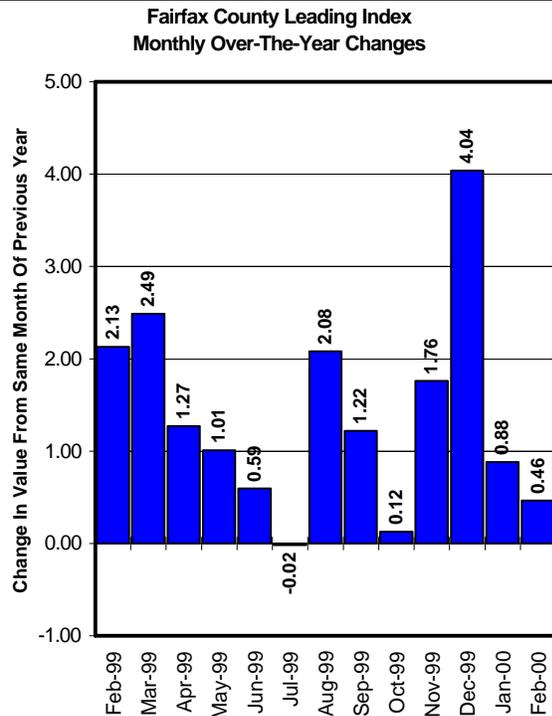
- Sales tax collections, adjusted for inflation and seasonal variation, in February were down sharply from January which had been overstated by the inclusion of late receipts from December; while,
- Consumer confidence increased after dropping in January;
- Transient occupancy tax collections, adjusted for inflation and seasonal variation, were up for a seventh month; and,
- Total employment increased for a third month in a row and for the ninth time in 12 months.

The **Fairfax County Leading Index**, which is designed to forecast the performance of the



Source: Mason Enterprise Center, George Mason University

County's economy nine to twelve months in advance, declined to 106.9, for a 0.7 percent loss. This is the second consecutive monthly decline in the Leading Index and the fourth decrease in six months. However, the Index continues to trend upward gaining 0.44 percent over the past 12 months, and currently stands above its 12-month moving average trend line. While



Source: Mason Enterprise Center, George Mason University

this trend line has been flattening out over this period, it has also become more volatile. In February, three of its five components contributed to the Index's decline.

- Consumer expectations (consumer confidence six months hence) fell slightly from their peak value established in January;
- Residential building permits dropped for a second month; and,
- Initial claims for unemployment insurance increased (worsened) after having declined (improved) over the four previous months; while,
- New automobile registrations increased, reversing a downward trend dating from September; and,
- The total value of residential building permits increased slightly in spite of a decrease in the number of permits issued.

The Fairfax County economy cooled off slightly in February but remained strong. However, there are growing signs of future softening in the area and national economies that will begin to show up in Fairfax County's economic indicators in coming

months. The overall economy may have already reached its peak growth rate and is now being buffeted by growing volatility in the stock market and by threats of higher interest rates. The consequences of these more recent external impacts on the County's economy are not reflected in February's performance, but will impact the direction of the growth trend in the coming months.

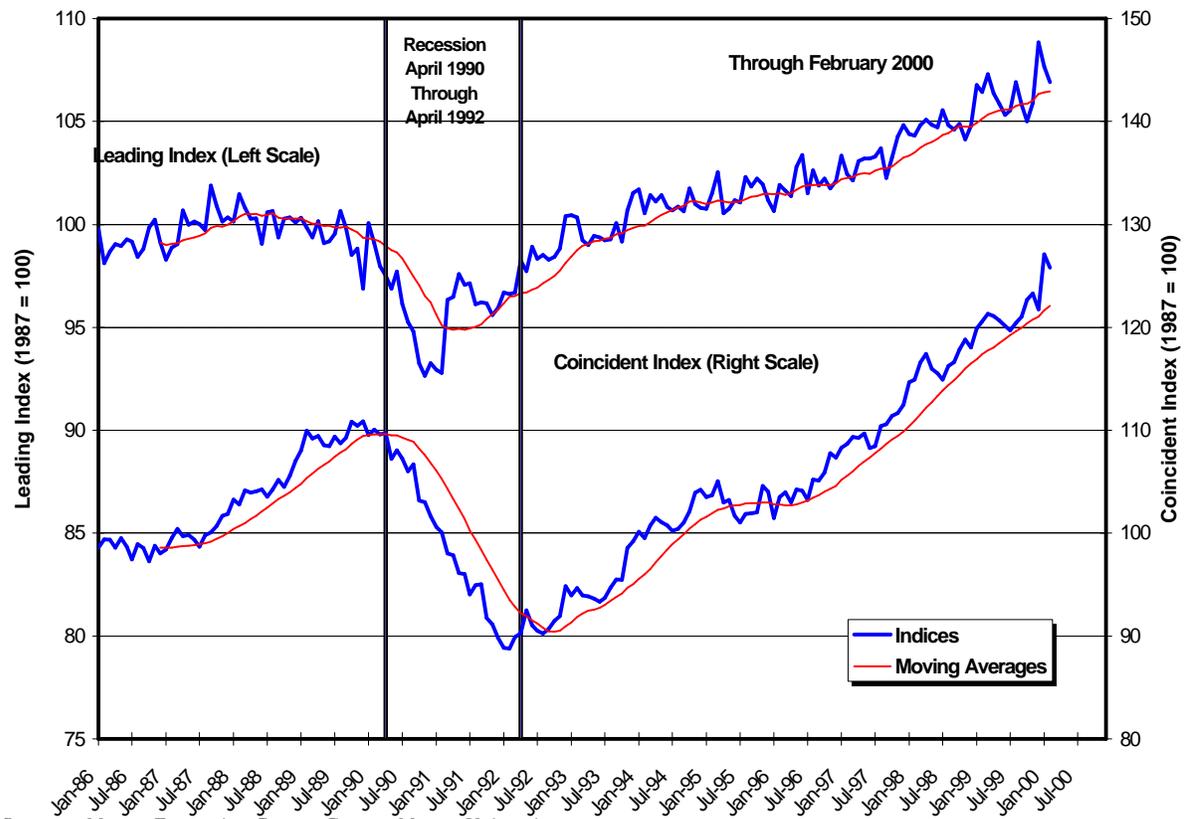
CURRENT CONDITIONS

Fairfax County's economy continued to expand in February following its 1999 growth path. The individual indicators confirm these fundamental strengths. While the pattern of retail sales tax receipts over the past three months has been clouded by reporting delays, a reliable measure of the economy's current condition is its job growth. Monthly over-the-year job gains in January of 5.7 percent and in February of 5.0 percent both exceeded 1999's gain. In February, the County's economy generated 25,075 new jobs, accounting for 30.5 percent of all jobs added in the Washington Metropolitan area.

This continuing strong job growth in the County is being sustained in spite of its tight labor force. In February, unemployment stood at 1.5 percent on a seasonally adjusted basis, the same level as in February 1999 suggesting that it may have reached its low point. One indication that there may be some softening in the labor market at the lower skill levels was the reversal in initial claims for unemployment insurance. While these remain low and declined on an actual numeric basis, claims, adjusted for seasonal variation, increased from January to February by 20 percent but are up just marginally (3.1 percent) from February 1999.

The other key indicator of the economy's health in February is consumer spending. Here, the actual conditions are distorted by delayed reporting of holiday sales in December that raised January's receipts well above their normal level and this higher January total has resulted in February's total appearing to be far lower in comparison than it probably was. Other indicators of consumer spending such as consumer confidence and automobile sales in February suggest that consumer spending has continued to grow. New automobile registrations were up 3.3 percent by actual count and 8.3 percent on a seasonally adjusted basis from January. Consumer confidence was also up slightly in the region and areawide consumer spending

Business Cycle Indicators – Fairfax County, Virginia



Source: Mason Enterprise Center, George Mason University

for nondurable goods experienced a sharp increase of 8.7 percent in February, a sign that consumers in the Washington area were continuing their spending spree that has helped to accelerate the economy's expansion over the past two years.

However, February's economic indicators were not impacted by February's end-of-the-month interest rate increase, and there was another increase in March and another increase is expected in May. Additionally, these indicators were not impacted by the dramatic sell-off in the stock market in March and again in April. Hence, these indicators describe the County's economy prior to the recent turbulence that will likely undercut the strong gains that have tracked a relatively smooth upward trend dating back to January 1996.

NEAR-TERM OUTLOOK

The performance of the Leading Index in both January and February point to slower future growth in the County's economy by late this year. Already, early interest rate increases and growing uncertainty in the

financial markets resulted in a decrease in consumer expectations (confidence six months hence) and a decline in residential building permits. In February, while residential building permits dropped 26.7 percent, the value of those permits issued increased 2 percent. This pattern occurs when the reduction in permits is concentrated at the lower end of the price spectrum and suggests that homebuilders may be responding to the expected impacts of higher mortgage rates on entry-level homebuyers who will be priced out of the market as these rates increase.

March's inflation report that showed the core rate to have had its greatest increase in five years and the stock market's recent increased volatility will be reflected in the County's indicators in coming months and could accelerate the moderate decline registered in January and February. Consumer spending should be the first casualty of an economic slowdown and consumer confidence and expectations should be the key indicators to watch going forward. And, an increase in the unemployment rate would provide confirmation of the economy's slowdown.

Fairfax County, Virginia Economic Indicators Current and Previous Months

Economic Indicator	Estimates			Percent Change	
	Feb-00 Prelim.	Jan-00 Final	Feb-99 Final	Jan-00 to Feb-00	Feb-99 to Feb-00
Fairfax County Business Cycle Indicators					
Coincident Index (1987 = 100)	125.80	127.08	120.56	-1.01	4.35
Leading Index (1987 = 100)	106.90	107.66	106.44	-0.70	0.44
Fairfax County Coincident Index Components					
Total Covered Employment (Seasonally Adjusted)	521,833	520,225	496,758	0.31	5.05
<i>Total Covered Employment (Unadjusted)</i>	<i>515,237</i>	<i>514,685</i>	<i>490,479</i>	<i>0.11</i>	<i>5.05</i>
Transient Occupancy Tax (\$'000='87, Smoothed, Seasonally Adjusted)	405	393	369	3.22	9.90
<i>Transient Occupancy Tax (\$'000=Current, Smoothed Only)</i>	<i>526</i>	<i>516</i>	<i>467</i>	<i>1.86</i>	<i>12.58</i>
Sales Tax Receipts (\$'000='87, Seasonally Adjusted)	7,766	10,419	7,208	-25.46	7.75
<i>Sales Tax Receipts (\$'000=Current, Unadjusted)</i>	<i>10,140</i>	<i>11,063</i>	<i>8,899</i>	<i>-8.34</i>	<i>13.95</i>
South Atlantic Consumer Confidence	187	184	182	1.47	2.75
Fairfax County Leading Index Components					
New Automobile Registrations (Seasonally Adjusted)	7,077	6,535	6,033	8.29	17.31
<i>Automobile Registrations (Unadjusted)</i>	<i>5,678</i>	<i>5,496</i>	<i>4,840</i>	<i>3.31</i>	<i>17.31</i>
Initial Unemployment Claims (Seasonally Adjusted)	640	534	621	19.89	3.12
<i>Initial Unemployment Claims (Unadjusted)</i>	<i>694</i>	<i>753</i>	<i>673</i>	<i>-7.84</i>	<i>3.12</i>
South Atlantic Consumer Expectations	120.2	126.7	116.7	-5.13	3.00
Residential Building Permits (Number of Units, Seasonally Adjusted)	578	789	790	-26.70	-26.80
<i>Residential Building Permits (Number of Units, Unadjusted)</i>	<i>497</i>	<i>580</i>	<i>679</i>	<i>-14.31</i>	<i>-26.80</i>
Residential Building Permit Value (\$'000='87, Seasonally Adjusted)	43,686	42,851	47,338	1.95	-7.72
<i>Residential Building Permit Value (\$=Current, Unadjusted)</i>	<i>52,125</i>	<i>44,694</i>	<i>55,134</i>	<i>16.63</i>	<i>-5.46</i>
Fairfax County Labor Force					
Total Labor Force (Seasonally Adjusted)	554,392	553,211	544,757	0.21	1.77
<i>Total Labor Force (Unadjusted)</i>	<i>549,353</i>	<i>546,645</i>	<i>539,805</i>	<i>0.50</i>	<i>1.77</i>
Unemployment Rate (Percent, Seasonally Adjusted)	1.46	1.40	1.49	--	--
<i>Unemployment Rate (Percent, Unadjusted)</i>	<i>1.44</i>	<i>1.43</i>	<i>1.46</i>	<i>--</i>	<i>--</i>

Notes: All components included in the indices are seasonally adjusted. In addition, those expressed in dollar value (Building Permit Value, Transient Occupancy Tax, and Sales Tax) are expressed in constant 1987 dollars. Initial Claims are inverted prior to inclusion in the Leading Index; that is, an increase in claims results in a decrease in the index and visa versa. Because of its quarterly collection schedule, the Transient Occupancy Tax is smoothed. Unadjusted data (*italics*) and Fairfax County Labor Force data are not included in either index, but are shown for informational purposes. All percent changes are calculated from unrounded data.

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We are on the web at:
**[www.co.fairfax.va.us/comm/
economic/economic.htm](http://www.co.fairfax.va.us/comm/economic/economic.htm)**

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