

Fairfax County Economic Index

Volume III, Number 12

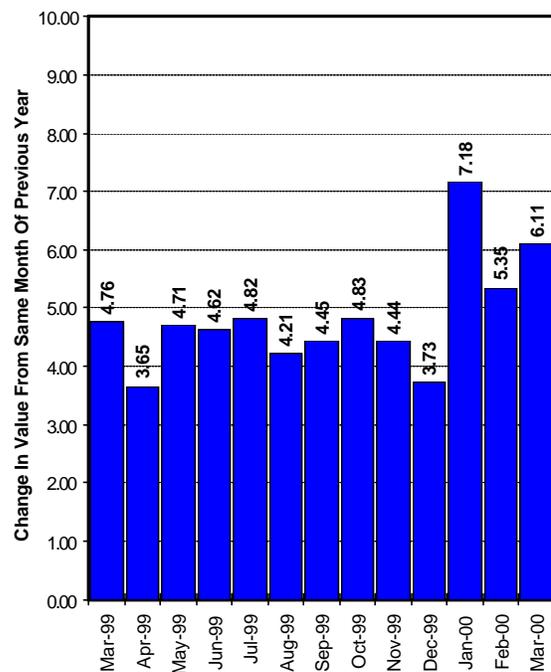
MAY 2000

County Registers Strong First Quarter, Gains Expected to Moderate in Second Half

The **Fairfax County Coincident Index**, which represents the current state of the County's economy, increased to 127.44 in March, a gain of 1.21 percent from February. Following two months of mixed performance (some due to reporting delays), the Index's March performance provides a good measure of the County's solid footing as the economy enters into a period of growing uncertainty. For the last 12 months, the Index has gained an impressive 5.03 percent, a gain reflective of its overall economic growth rate. This economic strength was mirrored in the Index's performance in March when all four of its components were positive.

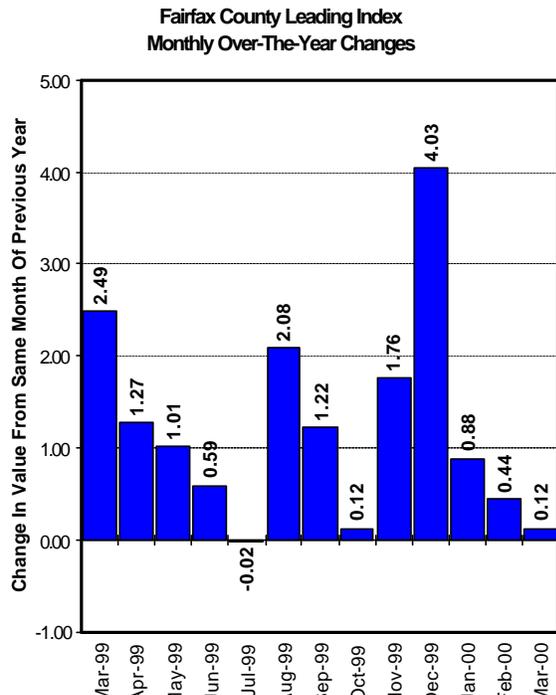
- Total employment increased slightly in March extending its upward trend to a fourth month and to eight monthly increases in the past nine months;
- Transient occupancy tax collections, adjusted for inflation and seasonal variation, were up sharply in March and now have increased for eight consecutive months;
- Sales tax collections, adjusted for inflation and seasonal variation, increased for the second time in three months; and,
- Consumer confidence increased for a second month after having declined in January.

Fairfax County Coincident Index
Monthly Over-The-Year Changes



Source: Mason Enterprise Center, George Mason University

The **Fairfax County Leading Index**, which is designed to forecast the performance of the County's economy nine to twelve months in advance, increased to 107.42 in March for a gain of 0.50 percent from February. This increase reversed two monthly declines. However, in spite of this month's gain, the Index is up just 0.1 percent from March 1999, and its long-term



Source: Mason Enterprise Center, George Mason University

trend continues to moderate from its path last year, pointing to the possibility of slower growth in coming months. In March, three of the Index's components contributed to its gain.

- New automobile registrations increased sharply gaining for a second month;
- Initial claims for unemployment insurance decreased sharply (improved) after having been up in February; and,
- Residential building permits increased slightly after having decreased in both January and February; while,
- The total value of residential building permits declined; and,
- Consumer expectations (consumer confidence six months hence) decreased for the second time following their peak in January.

The Fairfax County economy demonstrated its strength in March with a solid performance across all indicators. Its gain during the first quarter extended its growth trend from last year showing few, if any, weaknesses. However, the Leading Index continues to reflect the effects of growing uncertainty and

associated volatility in the national and area economies that will impact the County's economic outlook going forward.

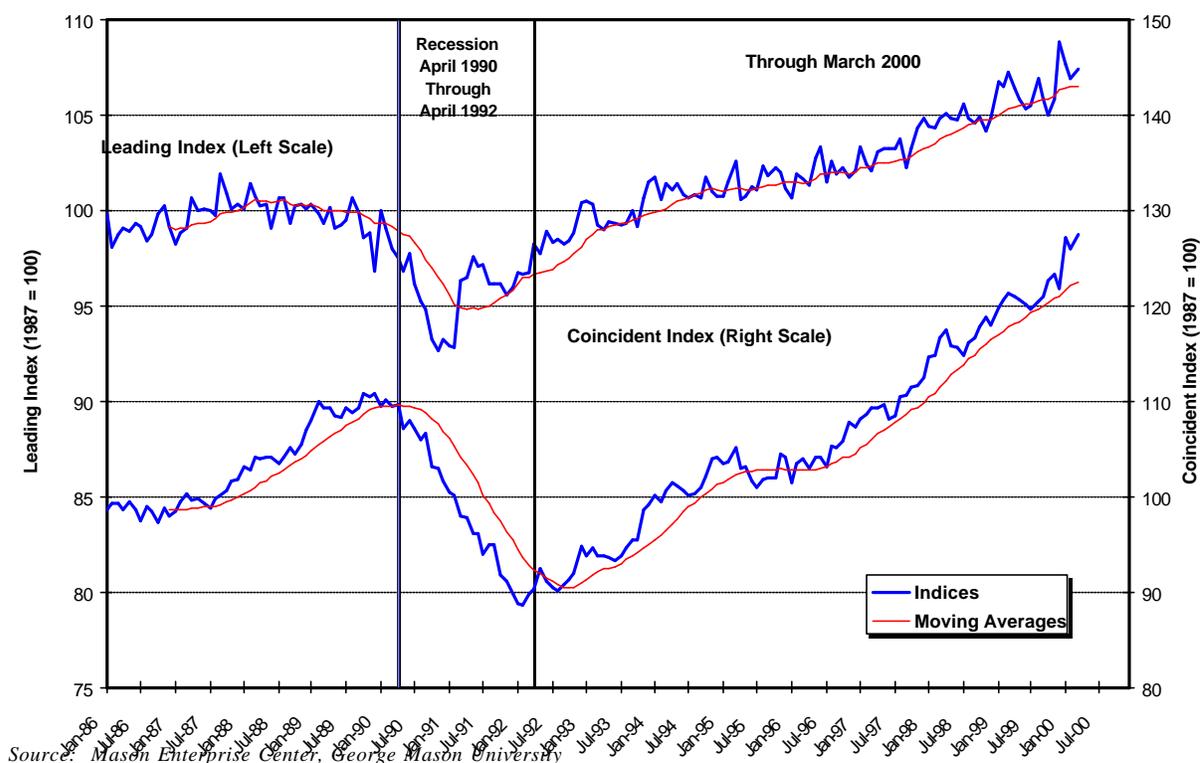
CURRENT CONDITIONS

Job growth and consumer spending continue to drive the County's economy. March-to-March job gains totaled 25,140, for a 5 percent increase. This gain was slightly greater than last year's average job growth and continues to account for more than half (53.5 percent) of Northern Virginia's total growth. The County's strong job growth parallels stronger job growth in the Washington metropolitan area with all sub-state portions adding jobs at a level exceeding last year's averages. For the first quarter, average annual job growth in the Washington region was running at the 83,800 level compared to the 78,200 jobs added in 1999. In Northern Virginia, annualized job growth, based on the first quarter's performance, was running at the 47,000 level. For Fairfax County, its first quarter annualized job growth was 26,140 or 5.3 percent, for the highest growth rate since the late 1980's.

Consumer spending provides the County economy the fuel to generate local demand for goods and services, creating additional job and income growth not initially tied to external economic conditions. While consumer confidence is not growing as fast as during the fourth quarter of 1999, it did increase in both February and March and, with this increase, retail sales have picked up. Actual sales patterns at the end of the year were clouded by reporting problems (some of December's sales were reported in January making month-to-month comparisons inaccurate). Retail sales in March were solid, gaining 16.1 percent from February and growing 14.7 percent (unadjusted) over March 1999 levels. This compares well with March-to-March national retail sales gains of 11.6 percent.

The first quarter is usually the economy's strongest quarter. Due to the spending cycle of the federal government, new federal procurement contracting has a favorable impact on the economy during the year's early months, as do increased construction outlays. The second and third quarters usually are not as strong and then retail spending helps to drive the fourth quarter to higher levels. As the Fairfax County economy comes off of two strong quarters, and as it faces its normally slower period, the impacts of higher interest rates, growing inflationary pressures and continuing labor shortages can be expected to further constrain the economy's performance. With unemployment in the Washington

Business Cycle Indicators -- Fairfax County, Virginia



area falling to 2.2 percent in March, and with no suburban jurisdiction reporting unemployment above 2.0 percent (combined, the suburban rate was 1.8 percent), the availability of labor to fill the County's new jobs is becoming a real growth constraint. And, with an unemployment rate of 1.4 percent, the resident labor pool within the County will not be able to fill these job requirements.

NEAR-TERM OUTLOOK

Higher interest rates will eventually slow the economy. At this time, higher inflation rates and higher labor costs are cutting into profit levels and contributing to upward price pressures. The Federal Reserve Board's most recent 1/2 point interest rate increase will push 30-year home mortgage rates up to 9 percent by mid-year (it is currently above 8.6 percent for the first time in five years) and it is likely the Fed will raise rates again at its meeting at the end of June. Residential building permits are already running well below last year (-40.6 percent) and the resale market will soon begin to feel some softening, especially

among first-time homebuyers. However, as long as variable rate mortgages remain available at rates below 7.5 percent, the resale market should remain hot.

Consumer expectations are on a downward slide, declining in both February and March. This trend is likely to continue in April and May reflecting the stock market's recent volatility. Lower consumer expectations (consumer confidence six month's hence) will drive the housing market lower, and should cut into durable goods sales such as autos and furniture and drag the economy's growth rate slower. This will show up (if it occurs) in September and October and provide a clear indication that the economy is slowing and likely to track lower into next year.

In March, the Fairfax County Leading Index is just 0.1 percent higher than a year ago. While it increased 0.5 percent in March, it had lost 1.8 percent in the previous two months. This is in dramatic contrast to the Coincident Index, which is up 5 percent from last year, and reflects the historic strength in the economy. The Leading Index is pointing to slower future growth later this year setting the stage of a more sustainable rate of economic growth in future years.

Fairfax County, Virginia Economic Indicators Current and Previous Months

Economic Indicator	Estimates			Percent Change	
	Mar-00 Prelim.	Feb-00 Final	Mar-99 Final	Feb-00 to Mar-00	Mar-99 to Mar-00
Fairfax County Business Cycle Indicators					
Coincident Index (1987 = 100)	127.44	125.91	121.33	1.21	5.03
Leading Index (1987 = 100)	107.42	106.88	107.30	0.50	0.11
Fairfax County Coincident Index Components					
Total Covered Employment (Seasonally Adjusted)	522,658	522,626	497,519	0.01	5.05
<i>Total Covered Employment (Unadjusted)</i>	519,413	516,020	494,429	0.66	5.05
Transient Occupancy Tax (\$'000='87, Smoothed, Seasonally Adjusted)	449	405	356	10.93	25.98
<i>Transient Occupancy Tax (\$'000=Current, Smoothed Only)</i>	593	526	457	12.75	29.60
Sales Tax Receipts (\$'000='87, Seasonally Adjusted)	9,017	7,766	8,474	16.11	6.41
<i>Sales Tax Receipts (\$'000=Current, Unadjusted)</i>	11,474	10,140	10,000	13.16	14.74
South Atlantic Consumer Confidence	185	185	184	0.33	0.38
Fairfax County Leading Index Components					
New Automobile Registrations (Seasonally Adjusted)	8,309	7,077	6,506	17.41	27.73
<i>Automobile Registrations (Unadjusted)</i>	8,444	5,678	6,611	48.71	27.73
Initial Unemployment Claims (Seasonally Adjusted)	512	640	509	-20.05	0.54
<i>Initial Unemployment Claims (Unadjusted)</i>	561	694	558	-19.16	0.54
South Atlantic Consumer Expectations	114.6	119.6	120.2	-4.18	-4.66
Residential Building Permits (Number of Units, Seasonally Adjusted)	585	578	985	1.21	-40.57
<i>Residential Building Permits (Number of Units, Unadjusted)</i>	703	497	1,183	41.45	-40.57
Residential Building Permit Value (\$'000='87, Seasonally Adjusted)	37,050	43,604	41,575	-15.03	-10.88
<i>Residential Building Permit Value (\$=Current, Unadjusted)</i>	65,634	52,125	71,594	25.92	-8.32
Fairfax County Labor Force					
Total Labor Force (Seasonally Adjusted)	555,538	555,632	545,084	-0.02	1.92
<i>Total Labor Force (Unadjusted)</i>	552,782	550,582	542,380	0.40	1.92
Unemployment Rate (Percent, Seasonally Adjusted)	1.48	1.50	1.48	--	--
<i>Unemployment Rate (Percent, Unadjusted)</i>	1.36	1.47	1.36	--	--

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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