



Fairfax County Economic Index

Volume V, Number 9

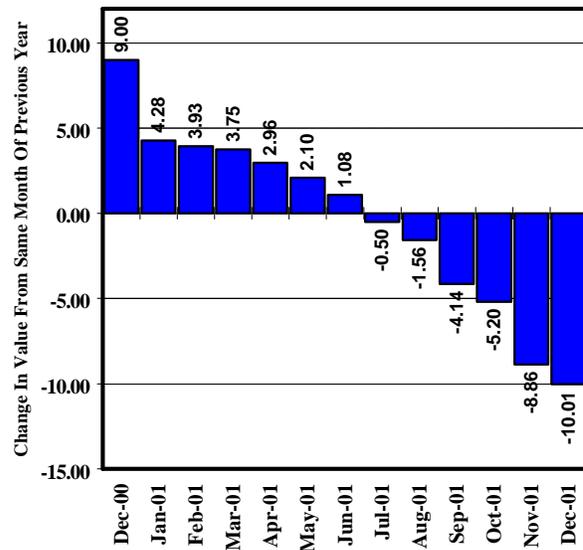
FEBRUARY 2002

County's Economy Slows in December Leading Indicators Point to Rebound

The **Fairfax County Coincident Index**, which represents the current state of the County's economy, decreased slightly to 122.13 in December for a loss of 0.13 percent. The Index has been down in nine of the year's twelve months for a decrease of 7.6 percent. Still, its performance in December shows that its has almost fully adjusted to the short-term impacts of the September 11 terrorist attack and that its slight decline constitutes a substantial moderation in the slowdown that has been under way since January 2001. The slight decline in December's Index reflects the slowdown in new job growth while consumer confidence and retail spending gained.

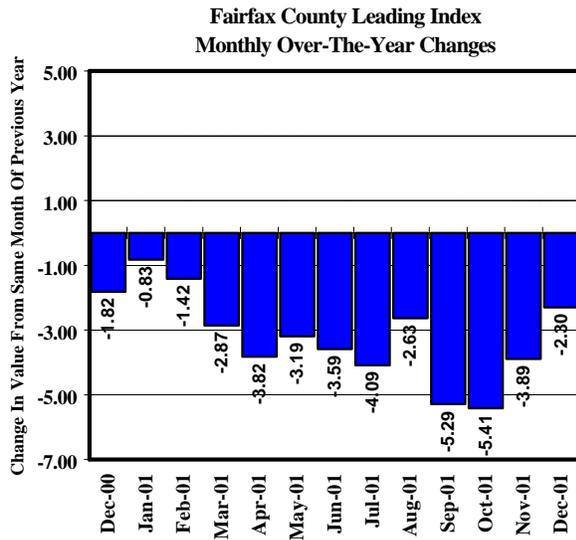
- Total employment in December fell for a second month reflecting the consequences of labor market adjustments common during the transitional phase of the business cycle; while,
- Consumer confidence (in the present) grew following five monthly declines;
- Sales tax collections, adjusted for inflation and seasonal variation, increased for the second time in three months; and,
- Transient occupancy tax collections, adjusted for inflation and seasonal variation, increased after declining in November and have grown in three of the last four months.

Fairfax County Coincident Index
Monthly Over-The-Year Changes



Source: Center for Regional Analysis, 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 104.99 in December for a gain of 1.73 percent and its largest gain of the year and the third monthly increase in a row. These three monthly gains have taken the Index back to its March 2001 level with its current level exceeding its 12-month moving average trend for



Source: Center for Regional Analysis, George Mason University

the first time since January. If the Index continues to recover, its December value will be seen as the turning point of the current economic cycle. Four of the Index's five indicators contributed to its December gain.

- Initial claims for unemployment insurance declined (improved) in December for the second month following three monthly increases;
- Consumer expectations (consumer confidence six months hence) were up sharply in December for a second month;
- Residential building permits registered the third consecutive monthly gain; and,
- New automobile sales were off for a second month and the third time in the last four months; while,
- The total value of residential building permits were up after declining in November.

The Fairfax County economy has moved through a period of slower growth that has been reflected in both weaker retail sales and slower job growth. This trend towards slower growth that dates from the beginning of 2001 was deepened by the consequences of the September 11 terrorist attack as well as slower growth at the metropolitan level and the national

metropolitan level and the national recession. The economy's performance in December appears to define the cycle's trough and the beginning of a transition to an accelerating expansion. With the Leading Index up sharply in December and building on gains in October and November, it now stands just 2.1 percent below its peak December 2000 value.

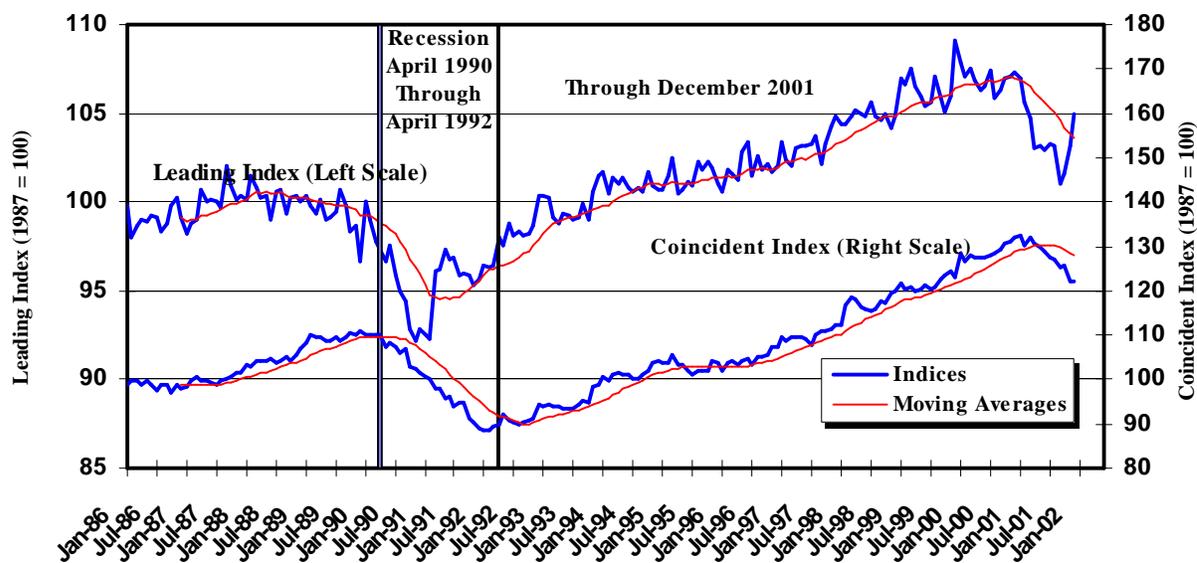
CURRENT CONDITIONS

The Coincident Index in December was mixed with three of four components positive. Only job growth was negative while several measures of consumer activity were positive. The balance between consumer spending and job growth within the economy is important. To sustain an economic expansion, both parts of the economy must contribute. In December, consumers were back after suffering a loss of confidence in the economy generally and more specifically due to the September 11 terrorist attack. Consumer spending in December exceeded expectations locally and nationally.

Job growth in Fairfax County had remained strong over most of the year even though job gains in the metropolitan area were slowing from an annualized level of 110,000 jobs (4.1 percent) in January 2001 to 27,900 jobs (1 percent) for the year ending in December. Fairfax County could not expect to escape this area-wide slowdown. In the twelve-month period ending in December, the County lost 5,060 jobs. However, for the year, the County's employment base is estimated to have grown by approximately 22,000 jobs.

With the release of next month's job data, all of the 2000 and 2001 monthly employment data will have been revised to reflect annual re-benchmarking based on a year-end employment survey. This re-benchmarking will change these job totals and provide a much more accurate count for both last year and for 2000. Still, using currently available estimates, it is clear that the County's economy has slowed or even stopped expanding its capacity to produce significant

Business Cycle Indicators -- Fairfax County, Virginia



Source: Center for Regional Analysis, George Mason University

gains in output value. As a result, in the short term, economic growth will be driven by consumer spending until business investment and subsequent expansion reemerges as a force in the economy. This is expected to occur in the second quarter or at least by mid-year at the national level.

NEAR-TERM OUTLOOK

The Leading Indices for the national economy, the Washington metropolitan area economy and the Fairfax County economy all recorded strong gains in December and all have been up for three months. The strength of the Index's gain (at the national level it was its greatest one-month gain since February 1996) gives the economic recovery some certainty. In Fairfax County, as well as for the Washington area, December's Leading Index moved higher than its corresponding 12-month moving average, an important signal regarding the economy's future direction. With a predictive power of nine to twelve months, the Index's three months of gains in the fourth quarter (2001) point to accelerated growth starting around mid-year. Given the federal budget cycle, the timing of the ramp-up in funding to prosecute the war on terrorism, and the slow

growth prospects of the area's other core industries (technology, building, hospitality, and international), the pattern of slowly accelerating growth beginning in the second quarter and growing into next year, seems supportable.

Key indicators to watch on an individual basis include consumer expectations and employment. Consumer expectations point to the consumers' willingness to take on new risk. While expectations have increased dramatically over the past two months, they remain 18 percent below last year's December level. Their return to full participation in the economy will not be certain for several more months. While job growth is not a leading indicator, when it accelerates it will confirm that the economy is driving its expansion locally. What kinds of job growth become key, as high value added new jobs will support faster growth than lower value added jobs. The County's job growth pattern will be clarified next month when the revised monthly data for the past two years are released. Until then, the job growth trend cannot be defined with complete confidence. While the future direction of the County economy seems positive based on years-end data, the pattern of the economy's re-acceleration is not yet clear.

Fairfax County, Virginia Economic Indicators Current and Previous Months

Economic Indicator	Estimates			Percent Change	
	Dec-01 Prelim.	Nov-01 Final	Dec-00 Final	Nov-01 to Dec-01	Dec-00 to Dec-01
Fairfax County Business Cycle Indicators					
Coincident Index (1987 = 100)	122.13	122.29	132.15	-0.13	-7.58
Leading Index (1987 = 100)	104.99	103.21	107.29	1.73	-2.14
Fairfax County Coincident Index Components					
Total Covered Employment (Seasonally Adjusted)	546,915	550,214	551,975	-0.60	-0.92
<i>Total Covered Employment (Unadjusted)</i>	555,359	553,967	560,497	0.25	-0.92
Transient Occupancy Tax (\$'000='87, Smoothed, Seasonally Adjusted)	402	384	395	4.75	1.84
<i>Transient Occupancy Tax (\$'000=Current, Smoothed Only)</i>	602	620	579	-2.92	4.06
Sales Tax Receipts (\$'000='87, Seasonally Adjusted)	8,122	7,459	8,287	8.90	-1.99
<i>Sales Tax Receipts (\$'000=Current, Unadjusted)</i>	14,597	9,624	15,449	51.67	-5.51
South Atlantic Consumer Confidence	105.6	104.9	186.3	0.67	-43.32
Fairfax County Leading Index Components					
New Automobile Registrations (Seasonally Adjusted)	6,496	6,952	5,716	-6.55	13.64
<i>Automobile Registrations (Unadjusted)</i>	5,658	6,182	4,979	-8.48	13.64
Initial Unemployment Claims (Seasonally Adjusted)	1,910	2,105	695	-9.25	174.78
<i>Initial Unemployment Claims (Unadjusted)</i>	1,863	1,895	678	-1.69	174.78
South Atlantic Consumer Expectations	98.9	79.3	120.7	24.72	-18.06
Residential Building Permits (Number of Units, Seasonally Adjusted)	1,291	814	770	58.55	67.70
<i>Residential Building Permits (Number of Units, Unadjusted)</i>	976	719	582	35.74	67.70
Residential Building Permit Value (\$'000='87, Seasonally Adjusted)	38,606	32,472	43,315	18.89	-10.87
<i>Residential Building Permit Value (\$=Current, Unadjusted)</i>	48,857	45,659	53,643	7.00	-8.92
Fairfax County Labor Force					
Total Labor Force (Seasonally Adjusted)	595,400	598,847	578,182	-0.58	2.98
<i>Total Labor Force (Unadjusted)</i>	591,673	594,811	574,562	-0.53	2.98
Unemployment Rate (Percent, Seasonally Adjusted)	2.88	3.00	1.17	--	--
<i>Unemployment Rate (Percent, Unadjusted)</i>	2.69	2.90	0.96	--	--

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.fairfaxcounty.gov/comm/
economic/economic.htm](http://www.fairfaxcounty.gov/comm/economic/economic.htm)**

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