

Fairfax County Economic Index

Volume VI, Number 2

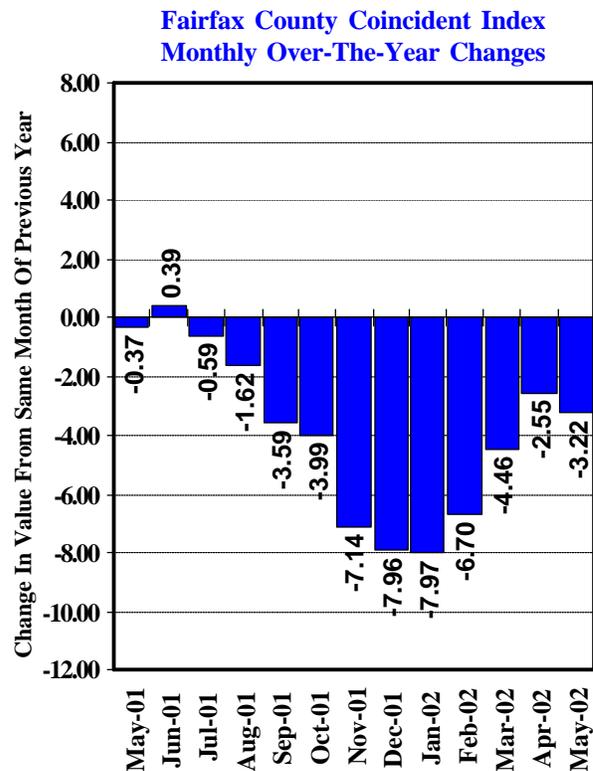
JULY 2002

Economy Slows Further in May Indicators Point To Moderate Future Gains

The **Fairfax County Coincident Index**, which represents the current state of the County's economy, decreased for a second month to 124.1, for a decline of 1.8 percent from April. This was the Index's third decline in the past four months and its value has again dropped below its 12-month moving average trend line and is down 2.5 percent from its value a year ago in May 2001. Three of the Index's four components were negative in May.

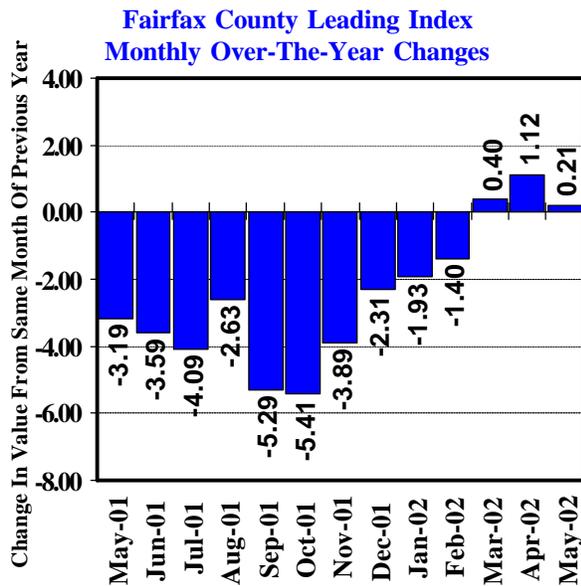
- Total employment decreased for a second month in a row;
- Transient occupancy tax collections, adjusted for inflations and seasonal variation, were off sharply from April and have now been lower for three months; and,
- Sales tax collections, adjusted for inflation and seasonal variation, fell for the second consecutive month and for the third time in the past four months; while,
- Consumer confidence rose slightly following a slight decline in April.

The **Fairfax County Leading Index**, which is designed to forecast the performance of the County's economy nine to twelve months in advance, declined for a second month in May to 103.3, a decrease of 0.8 percent. The Leading



Source: Center for Regional Analysis, George Mason University

Index has been down in three of the last four months but is still running slightly above last year's same-month values. However, with its decline in May, the Index has again dropped below its 12-month moving average trend line. In May, three of the Index's five components contributed to its decline.



Source: Center for Regional Analysis, George Mason University

- Initial claims for unemployment insurance increased (worsened) sharply for a second month;
- Consumer expectations dropped for a second consecutive month; and,
- Residential building permits declined for a second month, while,
- New automobile sales registered a strong gain in May; and,
- The total value of residential building permits increased after decreasing in the previous two months.

The weakness in the recovery that emerged in April continued into May as consumers and business investors lost confidence in the long-term outlook for economic growth resulting in decreased spending and weaker labor market conditions. However, the leading indicators remained above their same-month 2001 levels for the third month suggesting that the recovery will fill in but probably not as soon as had been previously expected and it will not be as strong. This weakness appears likely

to continue through the summer months with sustained gains not occurring until the September-October period.

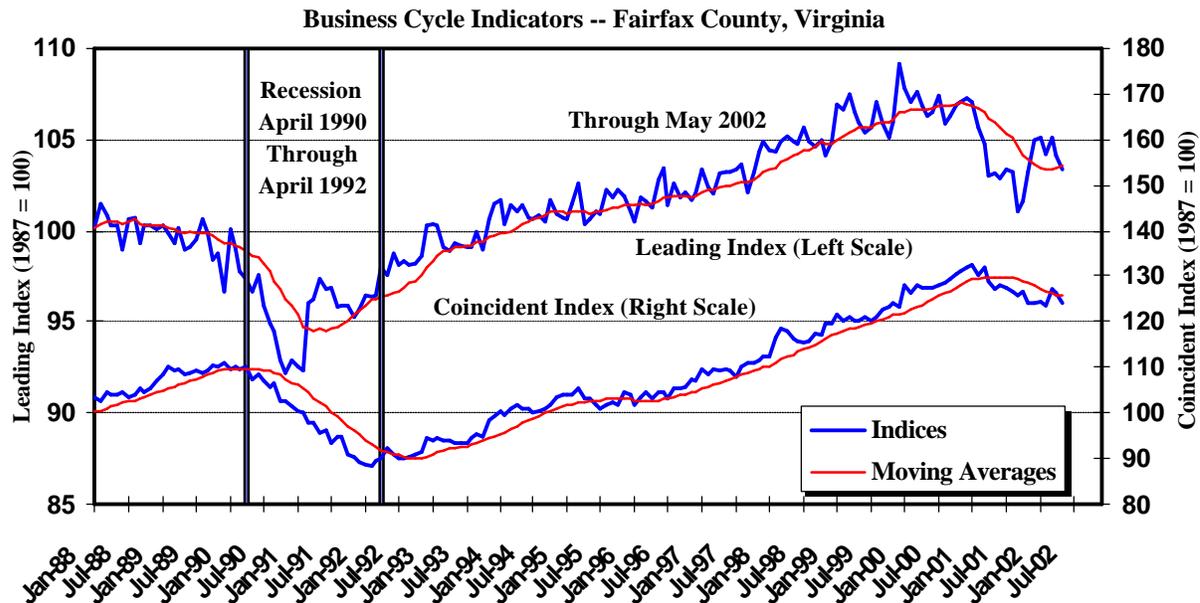
CURRENT CONDITIONS

The slowing trend in the County's economy is seen in the performance of most of its indicators; that is, their May values were lower than their April values. Still, many of the indicators had values greater than their same-month values last year. This apparent inconsistency reflects the normal pattern of the business cycle. During 2001, each succeeding month over the year was weaker than its preceding month with the economy in December being at its weakest. The economy rebounded in the first quarter with March registering the strongest gains year to date.

The second quarter is lagging the first quarter as its rebound had been driven largely by inventory adjustments and increased consumer spending in response to pent-up demand. These drivers are no longer present in the economy and consumer and investor confidence has been shaken further by the sell off in the financial markets and reports of accounting irregularities in several major corporations. These conditions have combined to undercut the recovery that was expected only to be relatively moderate from the outset.

The signs of this slowing in the recovery are apparent at the national and regional levels as well as in the County's economy. The labor market remains weak by historic standards with unemployment holding near 3 percent. Most telling is the growth in initial unemployment claims. In May these were up almost 40 percent from April and are more than 50 percent higher than in May of 2001. This increase in initial claims confirms that companies in the County are still downsizing their work forces. As a result of increased layoffs, net job growth in the County remains well below normal levels.

With slower job growth and growing uncertainty among investors and consumers, spending levels have moderated. This is seen in weaker sales and transient occupancy tax revenues



Source: Center for Regional Analysis, George Mason University

and lower residential building permits. However, May's increase in automobile sales shows that the spending potential of County residents remains strong. Still, consumer spending will lag as long as the current levels of uncertainty continues in the economy. This weakness in consumer spending is likely to continue through the summer months as residents go on vacations with increased spending not occurring until late August when going-back-to-school sales and cooler weather begin to resuscitate consumer demand.

NEAR-TERM OUTLOOK

The Leading Index had been moving higher over the past six months but declined in both April and May. This decrease does not point to a reversal in the expansion but rather a moderation in and lengthening of the recovery. Rather than the upswing powering through the economy's normally weaker second and third quarters, the expansion will have a two-quarter plateau before it resumes its upward trend in September or October. As a result, the growth of the County's economy in 2002 will fall below projection but its gain in 2003 should still achieve its expected magnitude.

How this growth pattern tracks over the remainder of this year will be shaped by both national and local events. Continuing revelations regarding questionable accounting and business practices could further undercut the inherent strength of the economy both nationally and locally. And, continuing problems in the technology industry, especially telecommunications, could impact the Fairfax County economy more than other jurisdictions in the region and nation. To date, these impacts have contributed to sharp but relatively small increases in initial claims for unemployment insurance. These losses have sapped some of the economy's strength although it continues to register moderate net job growth on a monthly over-the-year basis.

Whether the County's economy can sustain job and income growth and enjoy a rebound in consumer spending by September or October will determine the outlook for 2002 and 2003. A strong performance during the fourth quarter will provide the best test of the economy's resilience and best indicator of next year's performance. The Leading Indicators are still pointing to a rebound, but before this rebound can be achieved, consumers and investors have to feel much more confident about the future than they do now.

Fairfax County, Virginia Economic Indicators Current and Previous Months

Economic Indicator	Estimates			Percent Change	
	May-02 Prelim.	Apr-02 Final	May-01 Final	Apr-02 to May-02	May-01 to May-02
Fairfax County Business Cycle Indicators					
Coincident Index (1987 = 100)	124.10	126.37	127.32	-1.80	-2.53
Leading Index (1987 = 100)	103.32	104.12	103.11	-0.77	0.20
Fairfax County Coincident Index Components					
Total Covered Employment (Seasonally Adjusted)	560,928	563,369	544,366	-0.43	3.04
<i>Total Covered Employment (Unadjusted)</i>	<i>561,584</i>	<i>558,698</i>	<i>545,003</i>	<i>0.52</i>	<i>3.04</i>
Transient Occupancy Tax (\$'000='87, Smoothed, Seasonally Adjusted)	330	383	407	-13.91	-19.03
<i>Transient Occupancy Tax (\$'000=Current, Smoothed Only)</i>	<i>523</i>	<i>566</i>	<i>621</i>	<i>-7.58</i>	<i>-15.70</i>
Sales Tax Receipts (\$'000='87, Seasonally Adjusted)	7,975	8,113	8,145	-1.70	-2.08
<i>Sales Tax Receipts (\$'000=Current, Unadjusted)</i>	<i>10,370</i>	<i>10,189</i>	<i>10,928</i>	<i>1.78</i>	<i>-5.11</i>
South Atlantic Consumer Confidence	121.6	120.5	159.9	0.91	-23.95
Fairfax County Leading Index Components					
New Automobile Registrations (Seasonally Adjusted)	5,923	5,369	6,252	10.32	-5.26
<i>Automobile Registrations (Unadjusted)</i>	<i>6,538</i>	<i>5,278</i>	<i>6,901</i>	<i>23.87</i>	<i>-5.26</i>
Initial Unemployment Claims (Seasonally Adjusted)	2,783	1,995	1,825	39.55	52.51
<i>Initial Unemployment Claims (Unadjusted)</i>	<i>2,550</i>	<i>1,976</i>	<i>1,672</i>	<i>29.05</i>	<i>52.51</i>
South Atlantic Consumer Expectations	111.0	114.9	96.5	-3.39	15.03
Residential Building Permits (Number of Units, Seasonally Adjusted)	560	618	426	-9.34	31.63
<i>Residential Building Permits (Number of Units, Unadjusted)</i>	<i>591</i>	<i>645</i>	<i>449</i>	<i>-8.37</i>	<i>31.63</i>
Residential Building Permit Value (\$'000='87, Seasonally Adjusted)	28,168	27,311	30,515	3.14	-7.69
<i>Residential Building Permit Value (\$=Current, Unadjusted)</i>	<i>48,892</i>	<i>48,882</i>	<i>50,870</i>	<i>0.02</i>	<i>-3.89</i>
Fairfax County Labor Force					
Total Labor Force (Seasonally Adjusted)	585,801	586,016	588,806	-0.04	-0.51
<i>Total Labor Force (Unadjusted)</i>	<i>588,132</i>	<i>585,078</i>	<i>591,149</i>	<i>0.52</i>	<i>-0.51</i>
Unemployment Rate (Percent, Seasonally Adjusted)	2.97	3.16	1.72	--	--
<i>Unemployment Rate (Percent, Unadjusted)</i>	<i>2.99</i>	<i>2.95</i>	<i>1.74</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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