

# Fairfax County Economic Index

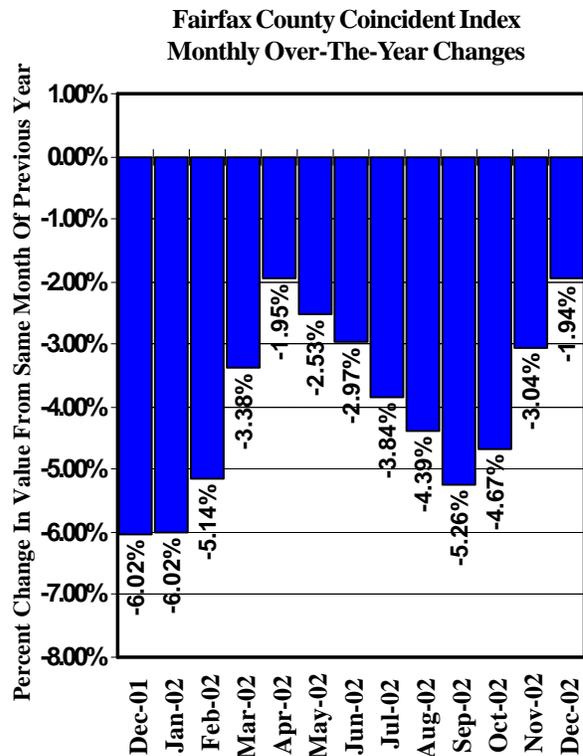
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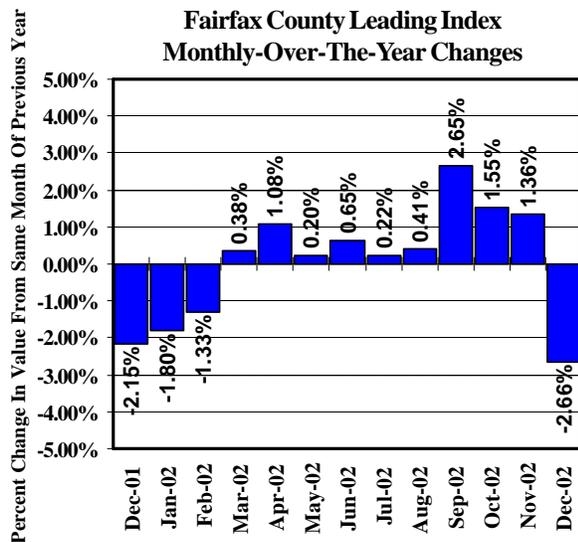
## The Economy Was Stronger in December But Its Outlook for Expansion Weakened

The **Fairfax County Coincident Index**, which represents the current state of the County's economy, increased to 121.8 in December for a gain of 1.3 percent. This increase was the second in three months and assured a positive performance for the fourth quarter off-setting the uniformly negative third quarter. Still, for the year, the Coincident Index was down 1.9 percent and continues to under-perform its twelve-month growth trend. In December, three of the Index's four components were positive.

- Total employment increased for the third consecutive month following three monthly declines;
- Transient occupancy tax collections, adjusted for inflation and seasonal variation, increased for a fourth consecutive month; and,
- Sales tax collections, adjusted for inflation and seasonal variation, registered a strong gain after being down for three months; while,
- Consumer confidence (in the present) fell for a second month and for the fifth time in six months.



Source: Center for Regional Analysis, George Mason University



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The **Fairfax County Leading Index**, which is designed to forecast the performance of the County's economy nine to twelve months in advance, declined in December to 102.2, for a decrease of 2.3 percent and its largest one-month loss of the year. This sharp decline reverses a positive trend that had recorded nine monthly over-the-year gains dating from March and resulted in it falling 2.7 percent below its December 2001 level. Until its December's decline, the Leading Index was above its historic growth trend and had been providing a clear signal of future expansion. In December, four of the Index's five components contributed to its decline.

- Initial claims for unemployment insurance increased (worsened) in December after trending down (improving) since mid-year;
- Residential building permits fell after registering a triple-digit gain in November;
- Consumer expectations declined for the fifth time in six months; and,
- The total value of residential building permits decreased for a second month and for the fifth time in six months; while,
- New automobile registrations increased reversing November's large decline.

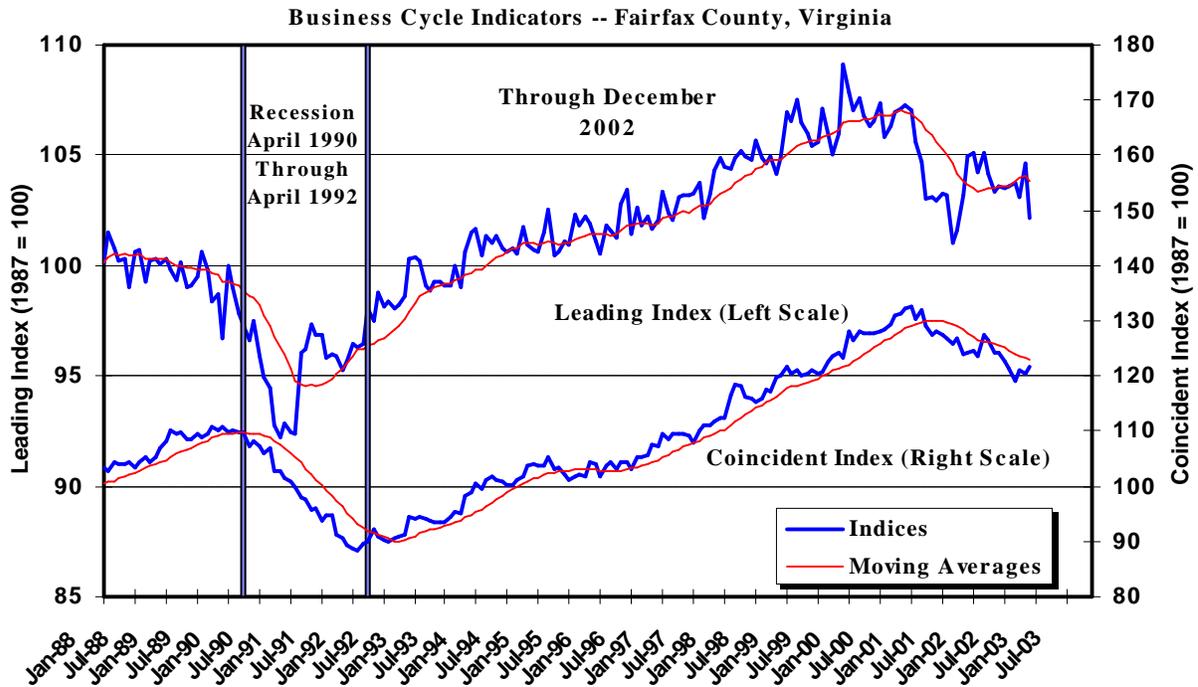
The Fairfax County economy accelerated in December in spite of continuing uncertainty and declining consumer confidence. The County's employment base continued to expand and consumer spending was strong. Still, the economy's future growth path has become clouded by continuing concerns regarding the anemic performance of the economy, further erosion in the financial markets, and the increased threat of terrorism and of war with Iraq. The sharp decline in the Leading Index following its slow but positive progression over the last six months was probably not the signal of a new slowdown but rather a sign of growing uncertainty that will continue to retard the expansion until the threat of war is clarified.

## **CURRENT CONDITIONS**

The drivers of the economy's current performance were all positive in December. The labor market indicators showed continuing strength with one minor exception. Job growth remained positive reflecting both expansion in the economy and seasonal hiring with gains for the year up 1.9 percent, or 10,600 jobs. This job growth has resulted in lower unemployment. December's unemployment rate was 2.3 percent down from 3.2 percent in December 2001 and well below the 3.1 percent for the Washington metropolitan area, and the lowest among all major metropolitan areas.

Still, initial claims for unemployment insurance were higher in December reflecting increases in lay offs in November. This year-end gain in initial claims may have been seasonal or reflective of some further downsizing in the technology sector but in either case it did not generate as many newly unemployed persons as were reported in December 2001 when the labor market effects of September 11 were at their peak. The overall labor market outlook is good and the growth of jobs and the reduction of unemployed persons provide a strong measure of the economy's merging strength.

Consumer spending is the second major source of the economy's strength. In spite of continuing decreases in consumer confidence in face of growing geopolitical uncertainty and weakness in the financial markets, spending was



Source: Center for Regional Analysis, George Mason University

up in the County in December after several weak months. Retail sales rebounded in December following three weak months and were up 12.3 percent from same-month sales in 2001, adjusted for inflation and seasonal variation. Consumers also bought more automobiles in December. Additionally, the hospitality industry appears to be recovering from the impacts of September 11 and the slowdown in business travel with transient occupancy tax revenues up for a fourth month, although they remain down for the year.

This increased consumer spending along with gains in employment provide the foundation for future economic growth. The economy's performance in December reflects its resilience in the face of continuing and increasing uncertainty and declining consumer confidence while job growth will enable and fuel future consumer spending.

### ***NEAR-TERM OUTLOOK***

The Leading Index had been pointing to accelerating growth in 2003. The economy's gains in December could be the beginning of this renewed expansion although one month does not constitute a trend. However, with the leading

indicators weakening in December, it is more likely that the economy's near-term performances will remain mixed well into 2003 as consumers weigh their spending requirements against their moods.

Even with the key economic indicators—job and income growth and unemployment decline—confirming the economy's strong fundamentals, the uncertainty and threats associated with concerns of terrorism and war weigh heavily on the County's economy and the economies of the region and nation. Until this uncertainty is clarified and there are clear signs of diminished geopolitical risk, the economy will not sustain its impending rebound.

The inherent signs are good for an improving economic performance in 2003. However, the externalities, especially consumer confidence, are not yet supporting the expansion. The controlling influence (geopolitical risk) over these externalities should diminish by mid-year but until that time the economy's momentum and direction will reflect these uncertainties and continue to under-perform its potential. If these uncertainties result in substantial slowing of consumer spending, the modest gains achieved over the last quarter of 2002 could be easily lost during the first quarter of 2003.

## Fairfax County, Virginia Economic Indicators Current and Previous Months

Economic Indicator	Estimates			Percent Change	
	Dec-02 Prelim.	Nov-02 Final	Dec-01 Final	Nov-02 to Dec-02	Dec-01 to Dec-02
<b>Fairfax County Business Cycle Indicators</b>					
Coincident Index (1987 = 100)	121.78	120.23	124.19	1.29	-1.94
Leading Index (1987 = 100)	102.19	104.61	104.98	-2.32	-2.66
<b>Fairfax County Coincident Index Components</b>					
Total Covered Employment (Seasonally Adjusted)	565,833	565,237	555,247	0.11	1.91
<i>Total Covered Employment (Unadjusted)</i>	<i>574,570</i>	<i>569,092</i>	<i>563,820</i>	<i>0.96</i>	<i>1.91</i>
Transient Occupancy Tax (\$'000='87, Smoothed, Seasonally Adjusted)	334	316	399	5.59	-16.30
<i>Transient Occupancy Tax (\$'000=Current, Smoothed Only)</i>	<i>523</i>	<i>523</i>	<i>602</i>	<i>-0.05</i>	<i>-13.11</i>
Sales Tax Receipts (\$'000='87, Seasonally Adjusted)	9,050	6,863	8,060	31.88	12.29
<i>Sales Tax Receipts (\$'000=Current, Unadjusted)</i>	<i>16,445</i>	<i>8,838</i>	<i>14,597</i>	<i>86.07</i>	<i>12.66</i>
South Atlantic Consumer Confidence	91.2	98.1	104.1	-7.03	-12.39
<b>Fairfax County Leading Index Components</b>					
New Automobile Registrations (Seasonally Adjusted)	5,557	5,134	6,496	8.23	-14.46
<i>Automobile Registrations (Unadjusted)</i>	<i>4,840</i>	<i>4,566</i>	<i>5,658</i>	<i>6.00</i>	<i>-14.46</i>
Initial Unemployment Claims (Seasonally Adjusted)	1,879	1,755	1,910	7.03	-1.66
<i>Initial Unemployment Claims (Unadjusted)</i>	<i>1,832</i>	<i>1,580</i>	<i>1,863</i>	<i>15.95</i>	<i>-1.66</i>
<i>South Atlantic Consumer Expectations (Unadjusted)</i>	<i>91.1</i>	<i>97.2</i>	<i>98.9</i>	<i>-6.28</i>	<i>-7.89</i>
Residential Building Permits (Number of Units, Seasonally Adjusted)	191	1,034	1,291	-81.58	-85.25
<i>Residential Building Permits (Number of Units, Unadjusted)</i>	<i>144</i>	<i>913</i>	<i>976</i>	<i>-84.23</i>	<i>-85.25</i>
Residential Building Permit Value (\$'000='87, Seasonally Adjusted)	17,762	29,808	38,326	-40.41	-53.66
<i>Residential Building Permit Value (\$=Current, Unadjusted)</i>	<i>23,506</i>	<i>43,873</i>	<i>48,857</i>	<i>-46.42</i>	<i>-51.89</i>
<b>Fairfax County Labor Force</b>					
Total Labor Force (Seasonally Adjusted)	587,756	591,196	578,235	-0.58	1.65
<i>Total Labor Force (Unadjusted, Revised By BLS)</i>	<i>584,077</i>	<i>587,211</i>	<i>574,615</i>	<i>-0.53</i>	<i>1.65</i>
Unemployment Rate (Percent, Seasonally Adjusted)	2.51	2.54	3.39	--	--
<i>Unemployment Rate (Percent, Unadjusted, Revised By BLS)</i>	<i>2.31</i>	<i>2.44</i>	<i>3.19</i>	<i>--</i>	<i>--</i>

Notes: Where available, seasonally adjusted estimates are used in the indices. 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/  
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