

Fairfax County Economic Index

Volume VI, Number 11

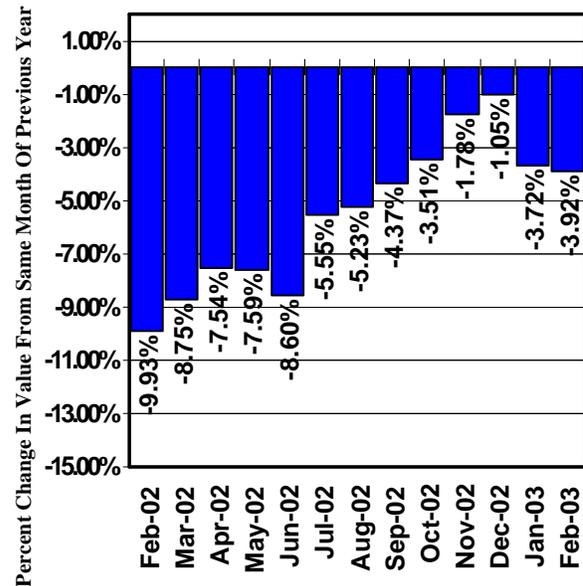
April 2003

Winter and War Fears Slow The County Economy and Cloud Its Outlook

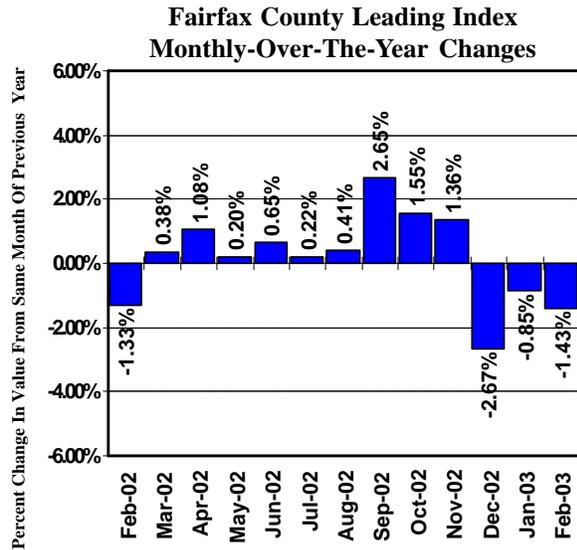
The **Fairfax County Coincident Index**, which represents the current state of the County's economy, decreased to 112.82 in February, a decline of 0.84 percent from January. Combined with January, the Coincident Index has lost 2.2 percent in the year's first two months. Over the last 12 months, the Index has been down 9 times losing a total of 3.92 percent, a downward trend that continues to track below the 12-month average line. In February, two of the Index's four components were negative.

- Sales tax collections, adjusted for inflation and seasonal variation, were down sharply in February and now have declined in five of the last six months; and,
- Consumer confidence (in the present) extended its downward trend to a fourth month and declined for the seventh time in eight months; while,
- Transient occupancy tax collections, adjusted for inflation and seasonal variation, registered its largest monthly gain in more than a year in February and have increased in five of the last six months; and,
- Total employment increased slightly after experiencing small decreases in December and January.

Fairfax County Coincident Index Monthly Over-The-Year Changes



Source: Center for Regional Analysis, George Mason University



Source: Center for Regional Analysis, George Mason University

The **Fairfax County Leading Index**, designed to forecast the performance of the County's economy nine to twelve months in advance, decreased to 102.73 in February, losing 1.41 percent. The Index has declined in two of the last three months but for the preceding 11 months it has seesawed with gains and losses being largely offsetting. As a result, the monthly over-the-year loss of 1.43 percent is almost entirely accounted for by the Index's February decline. In February, four of the Index's five components contributed to its loss.

- New automobile registrations declined in February after gaining in the previous two months;
- Consumer expectations (consumer confidence six months hence) dropped sharply and have been down for three consecutive months;
- Residential building permits dropped for the second time in three months; and,
- The total value of residential building permits fell after increasing in January; while,
- Initial claims for unemployment insurance were down (improved) for a second consecutive month and for the third time in four months.

The dual impact of harsh winter weather and increasing anxiety generated by the anticipation of war in Iraq obscured the true conditions operating

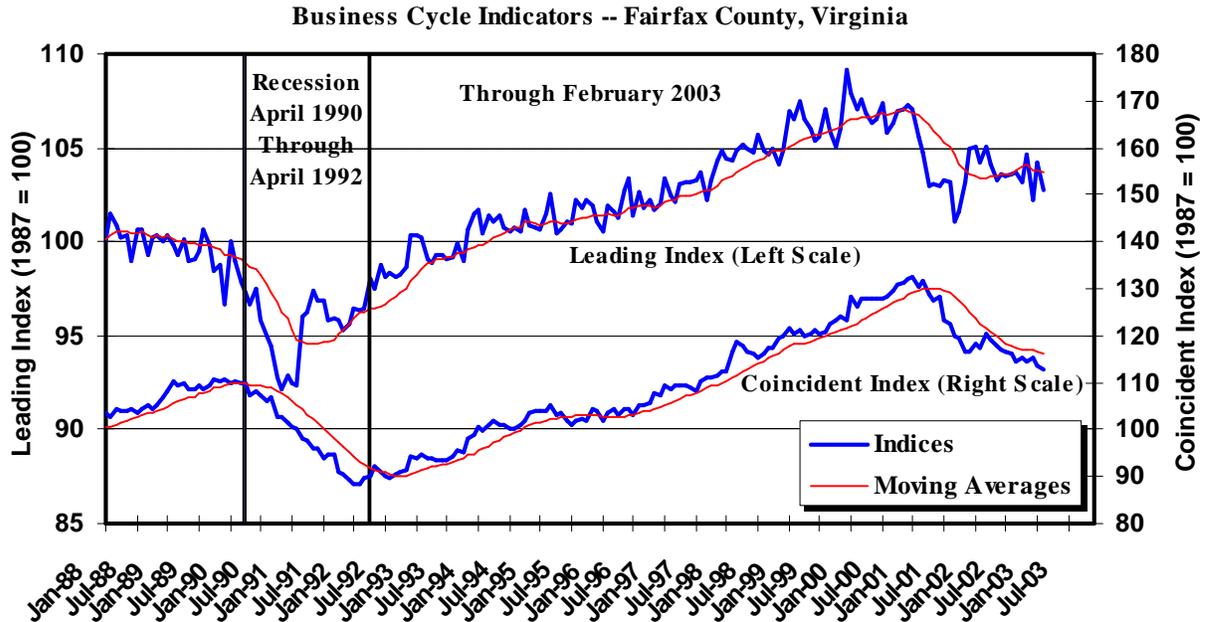
within the County economy. And, in spite of this broad based decline, the labor force continued to exhibit a positive performance with initial claims for unemployment insurance down (improving) and the employment base expanding. Still, February's data do not provide a clear picture of the economy's current or future performance because of the unusual conditions presently impacting local conditions.

CURRENT CONDITIONS

Consumer spending has been the source of the economy's strength over most of the past year and a half. Even while consumer confidence was being shaken by 9/11, the continuing threat of terrorism, the very visible failures of major corporations, and the national recession in 2001, consumer spending held up. Not only did retail sales grow through the national economic slowdown, housing sales (new and resales) set records. However, while consumers adjusted their shopping patterns to these threats, they were not able to shop through the President's Day snowstorm that crippled the region for most of a week. With shoppers snowed in, retail and housing sales fell.

The impact of the harsh winter can be seen in February's sales tax collections falling almost 18 percent from January and almost 6 percent below collections in February 2002, on a seasonal and inflation adjusted basis. Similarly, the almost 26 percent same-month decline in residential building permits reflected the inability of builders to get to the County offices. The effect of the weather and the threat of war on consumer attitudes will likely influence March's data although weather will be less important than war jitters.

The labor market managed to exhibit some signs of strength during the otherwise bleak month. Total employment is estimated to have increased slightly with this gain coming following month-to-month decreases in December and January. February's employment base was also up an estimated 0.8 percent from February 2002. Perhaps more importantly, initial claims for unemployment insurance—a measure of worker layoffs during the month—were down from January and were below their level in February 2002. With layoffs slowing and employment increasing, same-month unemployment is also down slightly, providing a



Source: Center for Regional Analysis, George Mason University

measure of the economy's expansion that will further strengthen consumers' spending potential in coming months.

The weak performance of the County's economy is understandable given the state of the national economy, the weather, and the war. Consumer confidence has fallen to its lowest level in nine years and this is not expected to change until the war in Iraq is resolved. With interest rates at historical lows, inflation not a threat, and incomes continuing to grow, the fundamentals underpinning the economy are in good condition. Still, the outlook is clouded by an accumulation of uncertainty.

NEAR-TERM OUTLOOK

The Leading Index out-performed same-month levels for nine consecutive months from March to November 2002. But since then, it has under-performed its same-month levels for three months. These positive gains in 2002 had turned the Index's 12-month moving average trend upward but now its three-month decline has reversed this trend line. The weight of the national economic paralysis compounded by anxiety and uncertainty associated with the Iraq War have cost the County economy the momentum it had built up in 2002.

Going forward, the weather can no longer be blamed for the economy's performance. And,

once the Iraq War is resolved, the economy will be on its own again. These externalities were still factors impacting the economy's national and local performances in March and April, so it will be May at the earliest before the economy's fundamentals will be able to function free of these heavy burdens.

How the economy will perform after the war is unclear. The forecast is for accelerated growth over the year's second half and, with the resolution of the war before mid-year, it is likely that the year can still be saved. Still, the annual GDP forecast has already been revised down from 2.9 percent to 2.7 percent reflecting its newly estimated slow growth (1.4 percent) in the first half.

The Fairfax County economy is better positioned for growth than the national economy because it did not slow as much during 2001 and 2002, and its principal source of business income—the federal government—has not slowed its spending and this is expected to increase as a result of the Iraq War and continuing War on Terrorism. However, this re-acceleration will not be evident for several months. A strong third quarter will be key to the County's annual performance; and, if the economy picks up in June, its year will be even better. However, if the economy remains in the doldrums through the summer, it will be difficult to achieve its currently projected growth.

Fairfax County, Virginia Economic Indicators Current and Previous Months

Economic Indicator	Estimates			Percent Change	
	Feb-03 Prelim.	Jan-03 Final	Feb-02 Final	Jan-03 to Feb-03	Feb-02 to Feb-03
Fairfax County Business Cycle Indicators					
Coincident Index (1987 = 100)	112.82	113.77	117.42	-0.84	-3.92
Leading Index (1987 = 100)	102.73	104.20	104.22	-1.41	-1.43
Fairfax County Coincident Index Components					
Total Covered Employment (Seasonally Adjusted)	541,122	540,277	536,741	0.16	0.82
<i>Total Covered Employment (Unadjusted)</i>	533,979	533,216	529,656	0.14	0.82
Transient Occupancy Tax (\$'000='87, Smoothed, Seasonally Adjusted)	369	326	400	13.05	-7.76
<i>Transient Occupancy Tax (\$'000=Current, Smoothed Only)</i>	537	482	560	11.34	-4.12
Sales Tax Receipts (\$'000='87, Seasonally Adjusted)	7,114	8,663	7,549	-17.87	-5.75
<i>Sales Tax Receipts (\$'000=Current, Unadjusted)</i>	9,262	9,198	9,488	0.70	-2.38
South Atlantic Consumer Confidence	82.2	88.2	96.3	-6.80	-14.64
Fairfax County Leading Index Components					
New Automobile Registrations (Seasonally Adjusted)	5,675	7,418	5,733	-23.50	-1.02
<i>Automobile Registrations (Unadjusted)</i>	4,553	4,840	4,600	-5.93	-1.02
Initial Unemployment Claims (Seasonally Adjusted)	1,620	1,666	1,806	-2.76	-10.27
<i>Initial Unemployment Claims (Unadjusted)</i>	1,756	2,349	1,957	-25.24	-10.27
<i>South Atlantic Consumer Expectations (Unadjusted)</i>	75.2	86.6	103.9	-13.16	-27.62
Residential Building Permits (Number of Units, Seasonally Adjusted)	306	359	412	-14.78	-25.71
<i>Residential Building Permits (Number of Units, Unadjusted)</i>	263	264	354	-0.38	-25.71
Residential Building Permit Value (\$'000='87, Seasonally Adjusted)	21,850	27,561	41,250	-20.72	-47.03
<i>Residential Building Permit Value (\$=Current, Unadjusted)</i>	29,258	32,326	53,141	-9.49	-44.94
Fairfax County Labor Force (February 2003 values are estimated.)					
Total Labor Force (Seasonally Adjusted)	574,710	574,271	586,234	0.08	-1.97
<i>Total Labor Force (Unadjusted, Revised By BLS)</i>	569,486	567,455	580,905	0.36	-1.97
Unemployment Rate (Percent, Seasonally Adjusted)	2.83	2.62	3.05	--	--
<i>Unemployment Rate (Percent, Unadjusted, Revised By BLS)</i>	2.81	2.66	3.03	--	--

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.

Prepared by:
**Center for Regional Analysis
George Mason University**

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)**

Inquiries should be directed to:

The Fairfax County
Department of Management and Budget
12000 Government Center Parkway, Suite 561
Fairfax, Virginia 22035-0074

(703) 324-2391 or 1-800-828-1120 (TDY)