



Fairfax County Economic Index

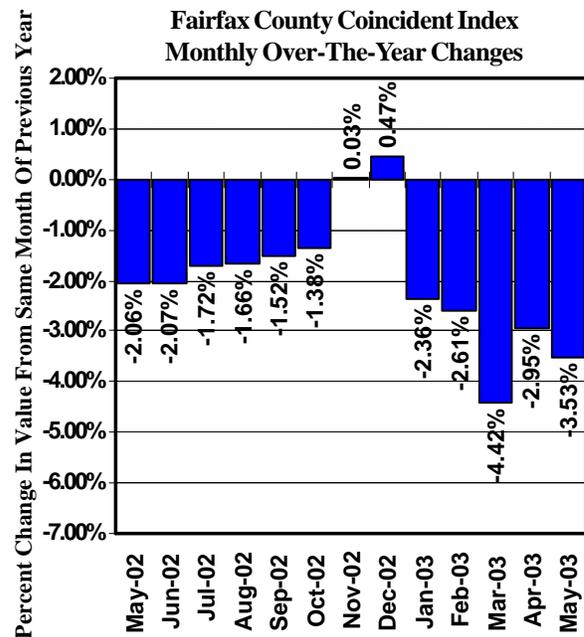
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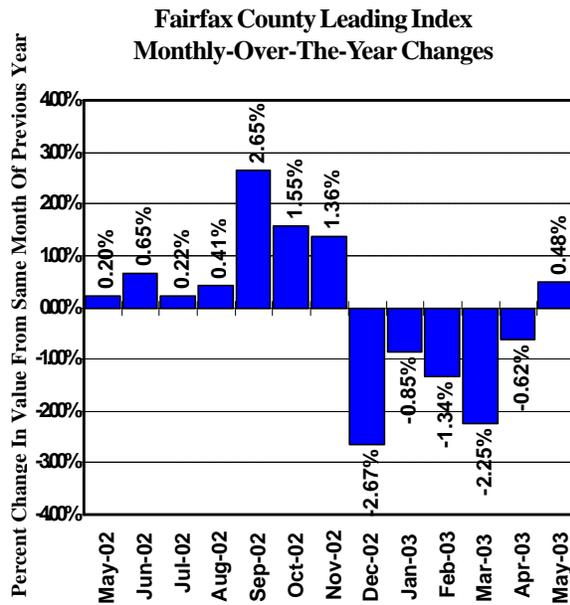
Economy Slowly Gaining Momentum Outlook Strengthens

The **Fairfax County Coincident Index**, which represents the current state of the County's economy, decreased to 122.6 in May, for a decline of 1.25 percent from its level in April. This decrease in the Coincident Index followed two monthly gains. However, the Index remains well below (3.5%) its same-month level in 2002 as consumer confidence and retail spending continue to lag. In May, three of the Index's four components were negative.

- Transient occupancy tax collections, adjusted for inflation and seasonal variation, declined for a third consecutive month;
- Sales tax collections, adjusted for inflation and seasonal variation, declined for a second month; and,
- Consumer confidence (in the present) fell after registering a strong gain in April; while,
- Total employment increased for a fourth month in a row.



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, increased in May to 103.8, for a gain of 0.34 percent from its level in April. The Index had registered a small gain in April following declines in February and March. Compared to May of 2002, the Index is up 0.48 percent. Four of Index's five components contributed to its increase in May.

- Initial claims for unemployment insurance decreased (improved) in May following two monthly increases;
- Residential building permits increased after declining in April;
- The total value of residential building permits were up; and,
- Consumer expectations (consumer confidence six month hence) gained slightly building on a sharp gain in April; while,
- New automobile registrations fell for the third time in the last four months.

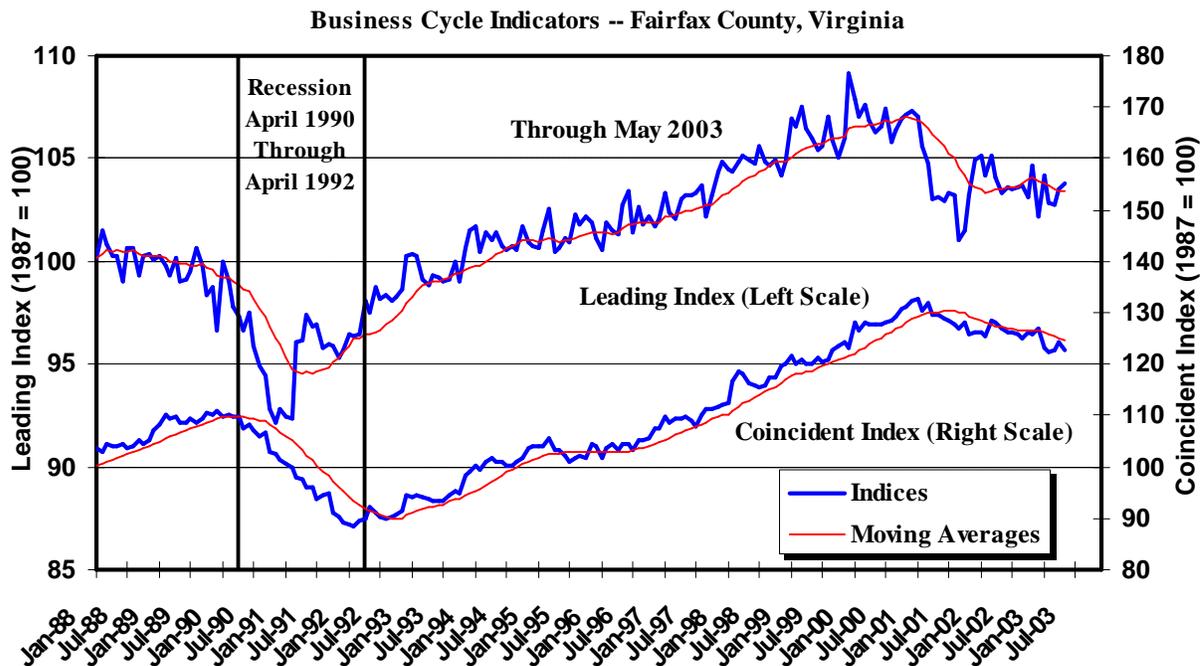
The Fairfax County economy continues to reflect its underlying strength with job gains and reductions in initial claims for unemployment insurance. The housing market remains strong while consumers reflect a mixture of sentiments: consumers are still uncertain in their spending patterns in the near term while looking forward their confidence is building. The Leading Index is pointing towards stronger gains in coming months with the economy's current performance likely to gain momentum over the year's second half.

CURRENT CONDITIONS

May's economic performance did not benefit from the initial optimism following the end of the Iraq War that had caused the sharp upswing in consumer confidence in April. As a result, the indicators provide a more realistic measure of the economy's health in May and confirmed that the expansion has not yet achieved full traction. With the Federal Reserve Board's latest interest rate reduction coming at the end of June and recent federal tax reductions taking effect in July, there was little to support the economy's growth in May beyond what had been in place since 2002. As a result, the continuing strength exhibited by the County's labor market provides a good measure of the economy's underlying growth potential.

While job growth has been modest, there have been four monthly increases since January and, in May, the employment base was up 1.9 percent from May 2002. At the same time, unemployment in the County was down to 2.5 percent (unadjusted) from 3.2 percent a year ago. Initial claims for unemployment insurance were also down in May (fewer lay offs) but are still 40 percent higher than in May 2002.

In contrast to the labor market, consumer spending continues to be a drag on the economy. While consumer confidence has improved (and more recent data show further gains), consumers are still being cautious with their discretionary spending. This is seen in slower retail sales. Sales, adjusted for seasonal variation, were down in May from April and May's spending fell 1.7 percent below spending levels in May 2002. This slower



Source: Center for Regional Analysis, George Mason University

retail spending reflects a combination of deferred spending by residents, lower prices, and lagging tourist spending. This slowdown in visitor spending is confirmed by lagging transient occupancy tax revenues. These have been down on a month-to-month basis in four of the last five months and are off 3.7 percent from May of 2002.

With job growth in the County and overall economic expansion, the consumer spending capacity of Fairfax County residents has increased this year. Realizing this potential will depend largely on consumer confidence. With both new monetary and fiscal incentives in place and improved performance of the financial markets, consumer confidence should rise over the summer months and spur renewed retail spending. Given the seasonal cycle, it may be August or September before the full force of this increased consumer spending can be documented.

NEAR-TERM OUTLOOK

The Leading Index is pointing to a slowly accelerating expansion. With the Index gaining in each of the last two months and also higher for the year, the signs are positive for a stronger second

half. This same pattern of performance is evident at both the Washington metropolitan area and for the national economy. However, the signs are stronger locally than nationally due to the stabilizing influence of federal spending and the absence of a significant manufacturing base.

Still, consumer spending and business investment will be the key to the area's economic expansion. With consumer expectations positive and continuing to grow, a stronger economic performance should be evident in the June and July data with a clear acceleration seen during the economy's normally strongest fourth quarter.

As consumer expectations rise (values above 100 are consistent with expansion), retail sales and the sales of "big ticket" items such as automobiles, appliances, and home furnishings should also increase. Spending increases will also parallel gains in the stock markets and increased jobs. Tourism will not be the primary source of increasing economic activity in the County. Rather, it will be a combination of residential and employment growth. With both population and employment growing, the County economy will reflect the benefits of accelerating growth.

Fairfax County, Virginia Economic Indicators Current and Previous Months

Economic Indicator	Estimates			Percent Change	
	May-03 Prelim.	Apr-03 Final	May-02 Final	Apr-03 to May-03	May-02 to May-03
Fairfax County Business Cycle Indicators					
Coincident Index (1987 = 100)	122.62	124.16	127.10	-1.25	-3.53
Leading Index (1987 = 100)	103.81	103.46	103.32	0.34	0.48
Fairfax County Coincident Index Components					
Total Covered Employment (Seasonally Adjusted)	582,943	580,568	571,893	0.41	1.93
<i>Total Covered Employment (Unadjusted)</i>	<i>583,625</i>	<i>575,755</i>	<i>572,562</i>	<i>1.37</i>	<i>1.93</i>
Transient Occupancy Tax (\$'000='87, Smoothed, Seasonally Adjusted)	318	324	330	-1.98	-3.70
<i>Transient Occupancy Tax (\$'000=Current, Smoothed Only)</i>	<i>524</i>	<i>499</i>	<i>523</i>	<i>4.99</i>	<i>0.11</i>
Sales Tax Receipts (\$'000='87, Seasonally Adjusted)	7,842	8,094	7,975	-3.11	-1.68
<i>Sales Tax Receipts (\$'000=Current, Unadjusted)</i>	<i>10,265</i>	<i>10,382</i>	<i>10,370</i>	<i>-1.13</i>	<i>-1.01</i>
South Atlantic Consumer Confidence	82.4	96.7	121.6	-14.79	-32.24
Fairfax County Leading Index Components					
New Automobile Registrations (Seasonally Adjusted)	4,899	7,156	5,923	-31.54	-17.28
<i>Automobile Registrations (Unadjusted)</i>	<i>5,408</i>	<i>4,840</i>	<i>6,538</i>	<i>11.74</i>	<i>-17.28</i>
Initial Unemployment Claims (Seasonally Adjusted)	1,678	1,811	2,783	-7.36	-39.73
<i>Initial Unemployment Claims (Unadjusted)</i>	<i>1,537</i>	<i>1,794</i>	<i>2,550</i>	<i>-14.33</i>	<i>-39.73</i>
<i>South Atlantic Consumer Expectations (Unadjusted)</i>	<i>93.1</i>	<i>91.2</i>	<i>111.0</i>	<i>2.08</i>	<i>-16.13</i>
Residential Building Permits (Number of Units, Seasonally Adjusted)	328	233	560	40.89	-41.46
<i>Residential Building Permits (Number of Units, Unadjusted)</i>	<i>346</i>	<i>243</i>	<i>591</i>	<i>42.39</i>	<i>-41.46</i>
Residential Building Permit Value (\$'000='87, Seasonally Adjusted)	28,206	21,557	28,168	30.84	0.13
<i>Residential Building Permit Value (\$=Current, Unadjusted)</i>	<i>50,894</i>	<i>40,197</i>	<i>48,892</i>	<i>26.61</i>	<i>4.09</i>
Fairfax County Labor Force					
Total Labor Force (Seasonally Adjusted)	574,135	575,105	566,180	-0.17	1.41
<i>Total Labor Force (Unadjusted, Revised By BLS)</i>	<i>576,420</i>	<i>574,185</i>	<i>568,433</i>	<i>0.39</i>	<i>1.41</i>
Unemployment Rate (Percent, Seasonally Adjusted)	2.44	2.61	3.19	--	--
<i>Unemployment Rate (Percent, Unadjusted, Revised By BLS)</i>	<i>2.46</i>	<i>2.40</i>	<i>3.21</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/
economic/economic.htm](http://www.co.fairfax.va.us/comm/economic/economic.htm)**

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