

Fairfax County Economic Index

Volume VIII, Number 4

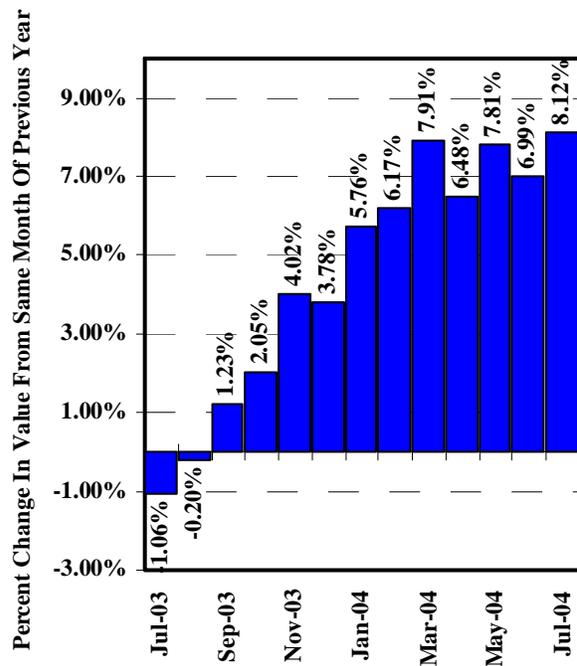
September 2004

Economy Moderates in July Outlook Remains Strong

The **Fairfax County Coincident Index**, which represents the current state of the County's economy, decreased in July to 137.0 for a decline of 0.30 percent. Still, the Index has gained in nine of the last twelve months and, for the year, it is up 8.12 percent. On a monthly over-the-year basis, the Coincident Index has increased for eleven consecutive months over last year's same-month values with August 2003 being the last down month. In July, two of the Index's four components were negative.

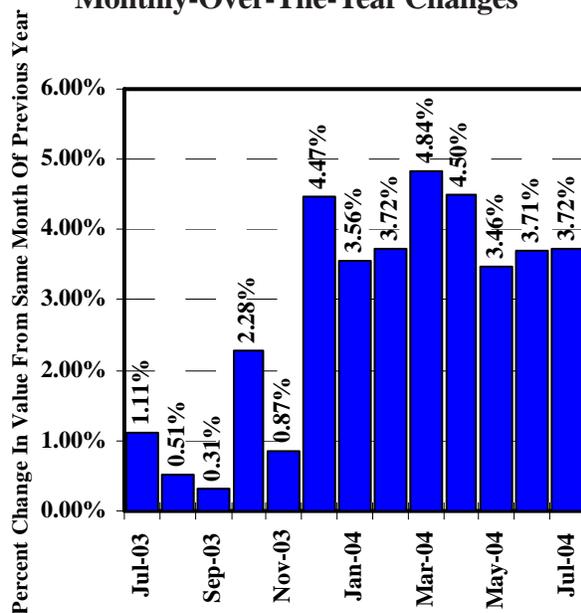
- Consumer confidence (in the present) was down following four monthly gains, and,
- Transient occupancy tax collections, adjusted for inflation and seasonal variation, declined for a third month; while,
- Total employment grew extending its positive trend to seventeen months; and,
- Sales tax revenues, adjusted for inflation and seasonal variation, increased for a third month.

**Fairfax County Coincident Index
Monthly Over-The-Year Changes**



Source: Center for Regional Analysis, George Mason University

Fairfax County Leading 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 108.57 in July for a gain of 0.33 percent. The Leading Index has been tracking higher since mid-2003 exceeding its previous year's same-month values for fifteen consecutive months starting in May 2003. This upward trend is clearly visible in the track of its 12-month moving average line that has moved higher over the past year closing in on its historic high set in November 2000. In June, four of the Index's five components contributed to its gain.

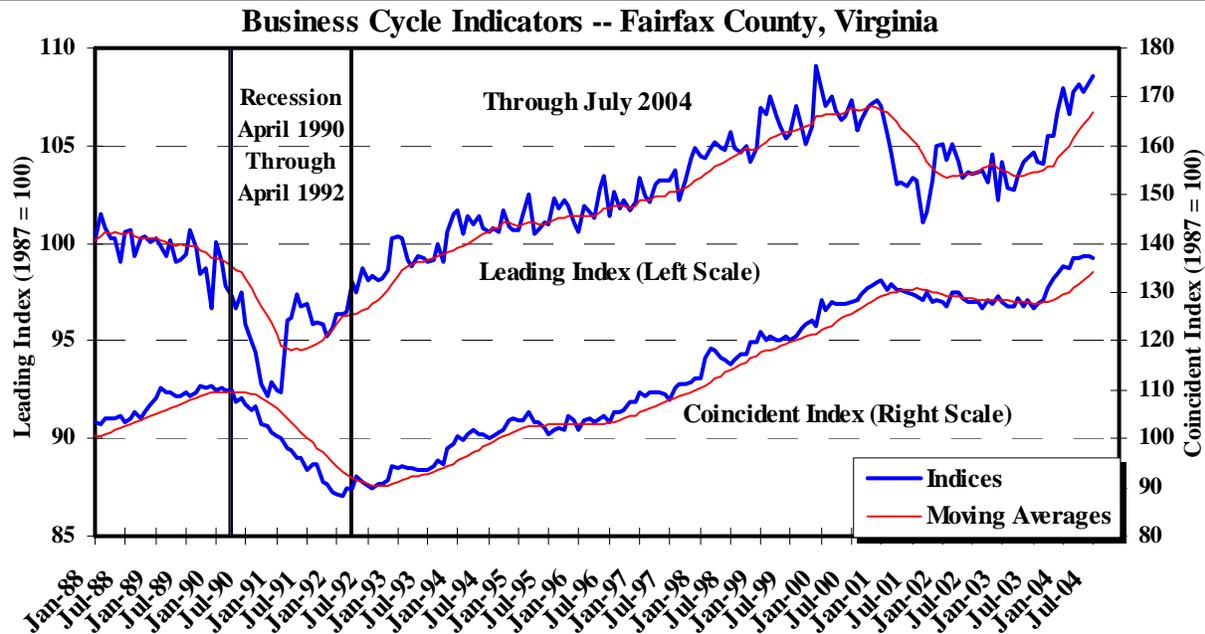
- Consumer expectations (consumer confidence six months hence) improved for a third month after declining for three months;
- Residential building permits increased for the fourth time in five months;
- The total value of residential building permits was higher for the fourth time in five months;
- Initial claims for unemployment insurance decreased (improved) in July for the fourth time in five months; while,
- New automobile registrations were sharply lower after registering strong June sales.

The Fairfax County economy showed some softening in July as its Coincident Index declined slightly reflecting weakness in the hospitality industry and declining consumer confidence. Still, the fundamentals underpinning the economy—job growth and retail spending—continued to grow. The Leading Index continued to increase pointing to the expansion's underlying strength and expected acceleration during the year's second half

CURRENT CONDITIONS

Even though the Fairfax County economy slowed in July, its fundamentals remained strong. Job growth, which has been the principal driver of the expansion, registered its seventeenth consecutive monthly gain in July and, for the twelve-month period ending in July, job growth in the County was up 4.5 percent. This strong job growth performance is reflected in the continuing decline in initial claims for unemployment insurance; they were down 10.1 percent from June and 27.5 percent from July 2003. With lay-offs declining, job growth has succeeded in re-employing many of the small number of unemployed workers residing in Fairfax County driving the unemployment rate down below 2 percent. In July, the raw unemployment rate was 1.9 percent down from 2.6 percent the year before.

The County's strong job growth is reflected in its other economic indicators, especially consumer spending and the housing market. Retail sales in July were up 1.8 percent from June on a seasonally adjusted basis but their strength is seen more clearly in their monthly over-the-year gain of 8.1 percent. The strength of the housing market is reflected in several indicators. Residential building permits were up 21.2 percent from June and were more than 2.5 times higher than in July 2003. Also, the value of permits continues to increase gaining 14.2 percent from June (on a seasonally adjusted, constant dollar basis) and 77.8 percent from July 2003. Only automobile sales have declined over the year. But this decline has more to do with dealer discounts and end-of-the-model-year market factors than consumer spending patterns. The County's economy remains strong and is expected to strengthen further during the remainder of the year.



Source: Center for Regional Analysis, George Mason University

NEAR-TERM OUTLOOK

The Leading Index set new record highs in both June and July, surpassing the previous peak registered in January 2000. Its fifteen monthly over-the-year increases underscore the strength of the positive signal it is providing and the consistency of monthly gains over the past eight months confirms that this performance has been solid. With the Leading Index's 9 to 12 month lead on the Coincident Index, its upward trend provides strong evidence that the County's economy should continue its expansion well into next year.

This near-term projection is consistent with others that show the "real" value of goods and services produced in the County in 2004 increasing 5.21 percent from 2003. The forecast for 2005 is for a 5.17 percent increase followed by slightly slower gains in 2006 and 2007. Job growth lags the economy slightly, so while job gains in 2004 are the best since 2000, job gains in 2005 should be even better. Continued job gains through 2005 will drive unemployment lower resulting in higher labor costs. This pattern occurred in 1999 and 2000 and contributed to the economy's slowdown. Higher wages and a shortage of qualified workers will be major threats to the County's economic health during the remainder of the current business cycle.

Two other short-term constraints could undermine the economy's performance. One—higher energy prices—already is having a small negative impact on the economy's growth rate. At the national level, higher-than projected oil prices have slowed the growth of GDP by at least 1/2 percentage point. In Fairfax County, the effect has been less. The second source of friction is interest rates. As the Federal Reserve Board slowly raises its overnight discount rate from 1 percent to 2 percent this year to 3 percent in 2005 or early 2006 and eventually to 4 percent by 2007 or 2008, 30-year fixed home mortgage rates will shift upward to their equilibrium level of 8 percent. Higher interest rates will not only slow housing demand but will increase the carrying cost of consumer debt and eliminate the refinancing of higher-rate mortgages that had brought large quantities of new spending power to the market in 2002 and 2003. The result will not only be a slowing of housing construction and price appreciation, but also smaller increases in retail spending. As consumer spending accounts for 2/3 of GDP and a somewhat similar share of the County's economy, lower rates of consumer spending will result in slower economic expansion. Higher energy prices and interest rates are expected to slow the expansion after 2005.

Fairfax County, Virginia Economic Indicators Current and Previous Months

| Economic Indicator | Estimates | | | Percent Change | |
|---|-------------------|-----------------|-----------------|------------------------|------------------------|
| | Jul-04 Prelim. | Jun-04 Final | Jul-03 Final | Jun-04 to Jul-04 | Jul-03 to Jul-04 |
| Fairfax County Business Cycle Indicators | | | | | |
| Coincident Index (1987 = 100) | 136.96 | 137.37 | 126.67 | -0.30 | 8.12 |
| Leading Index (1987 = 100) | 108.57 | 108.22 | 104.67 | 0.33 | 3.72 |
| Fairfax County Coincident Index Components | | | | | |
| Estimated Total Wage & Salary Employment (Seasonally Adjusted) | 631,795 | 628,457 | 604,659 | 0.53 | 4.49 |
| <i>Estimated Total Wage & Salary Employment (Unadjusted)</i> | <i>635,346</i> | <i>635,904</i> | <i>608,057</i> | <i>-0.09</i> | <i>4.49</i> |
| Transient Occupancy Tax (\$'000='87, Smoothed, Seasonally Adjusted) | 299 | 319 | 262 | -6.17 | 14.23 |
| <i>Transient Occupancy Tax (\$'000=Current, Smoothed Only)</i> | <i>610</i> | <i>602</i> | <i>515</i> | <i>1.32</i> | <i>18.40</i> |
| Sales Tax Receipts (\$'000='87, Seasonally Adjusted) | 9,391 | 9,227 | 8,689 | 1.78 | 8.08 |
| <i>Sales Tax Receipts (\$'000=Current, Unadjusted)</i> | <i>12,039</i> | <i>13,002</i> | <i>11,021</i> | <i>-7.41</i> | <i>9.24</i> |
| South Atlantic Consumer Confidence | 127.5 | 134.7 | 80.8 | -5.35 | 57.80 |
| Fairfax County Leading Index Components | | | | | |
| New Automobile Registrations (Seasonally Adjusted) | 5,290 | 6,837 | 7,343 | -22.63 | -27.97 |
| <i>Automobile Registrations (Unadjusted)</i> | <i>6,014</i> | <i>6,218</i> | <i>8,349</i> | <i>-3.28</i> | <i>-27.97</i> |
| Initial Unemployment Claims (Seasonally Adjusted) | 1,110 | 1,236 | 1,531 | -10.14 | -27.48 |
| <i>Initial Unemployment Claims (Unadjusted)</i> | <i>1,111</i> | <i>1,173</i> | <i>1,532</i> | <i>-5.29</i> | <i>-27.48</i> |
| South Atlantic Consumer Expectations (Unadjusted) | 111.5 | 108.2 | 89.6 | 3.05 | 24.44 |
| Residential Building Permits (Number of Units, Seasonally Adjusted) | 1,342 | 1,107 | 371 | 21.25 | 261.52 |
| <i>Residential Building Permits (Number of Units, Unadjusted)</i> | <i>987</i> | <i>814</i> | <i>390</i> | <i>21.25</i> | <i>153.08</i> |
| Residential Building Permit Value (\$'000='87, Seasonally Adjusted) | 42,430 | 37,172 | 23,864 | 14.15 | 77.80 |
| <i>Residential Building Permit Value (\$=Current, Unadjusted)</i> | <i>60,516</i> | <i>52,183</i> | <i>43,430</i> | <i>15.97</i> | <i>39.34</i> |
| Fairfax County Labor Force (Rebenchmarked) | | | | | |
| Total Labor Force (Seasonally Adjusted) | 584,069 | 585,930 | 566,365 | -0.32 | 3.13 |
| <i>Total Labor Force (Unadjusted)</i> | <i>599,854</i> | <i>594,977</i> | <i>581,672</i> | <i>0.82</i> | <i>3.13</i> |
| Employed Labor Force (Seasonally Adjusted) | 575,085 | 575,190 | 553,683 | -0.02 | 3.87 |
| <i>Employed Labor Force (Unadjusted)</i> | <i>588,484</i> | <i>581,952</i> | <i>566,583</i> | <i>1.12</i> | <i>3.87</i> |
| Unemployed Labor Force (Seasonally Adjusted) | 8,984 | 10,739 | 12,682 | -16.35 | -29.17 |
| <i>Unemployed Labor Force (Unadjusted)</i> | <i>11,370</i> | <i>13,025</i> | <i>15,089</i> | <i>-12.71</i> | <i>-24.65</i> |
| Unemployment Rate (Percent, Seasonally Adjusted) | 1.54 | 1.83 | 2.24 | -- | -- |
| <i>Unemployment Rate (Percent, Unadjusted)</i> | <i>1.90</i> | <i>2.19</i> | <i>2.59</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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