

Fairfax County Economic Index

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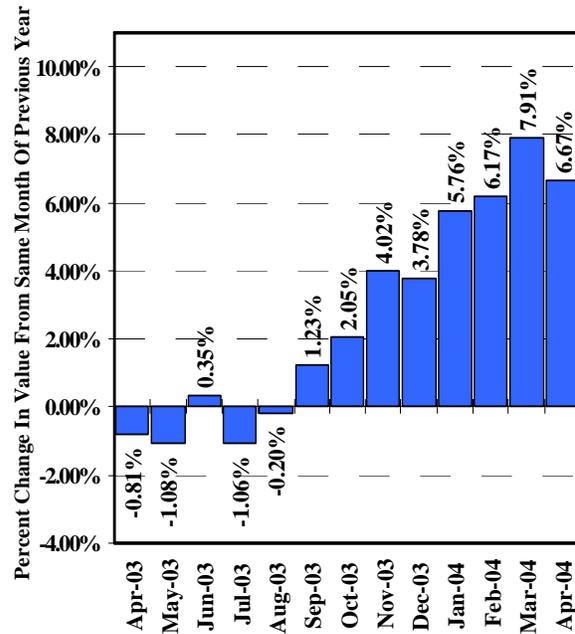
June 2004

Expansion Gains Momentum

The **Fairfax County Coincident Index**, which represents the current state of the County's economy, increased in April to 137.4 for a gain of 0.15 percent. On a month-to-month basis, the Index has gained in eight of the last nine months (February was negative) and for the year it is up 6.7 percent. On a monthly over-the-year basis, the Coincident Index has increased for eight consecutive months over last year's same-month values with August 2003 being the last down month. In April, three of the Index's four components were positive.

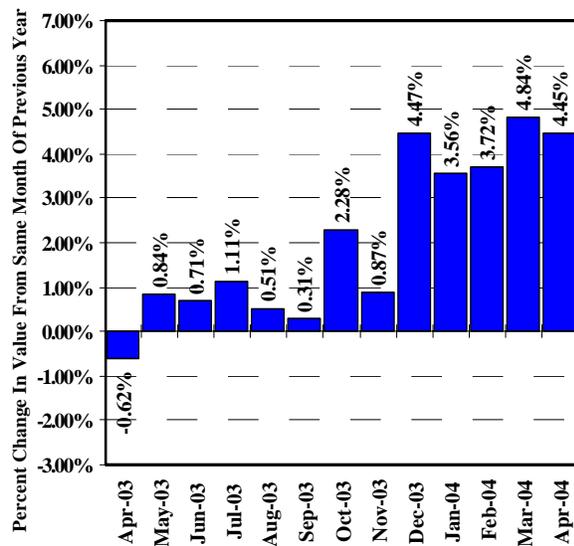
- Total employment grew extending its positive trend to fourteen months;
- Consumer confidence (in the present) was higher for a second month; and
- Transient occupancy tax collections, adjusted for inflation and seasonal variation, gained for the fifth time in six months; while,
- Sales tax revenues, adjusted for inflation and seasonal variation, fell after gaining sharply in March.

**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 108.1 in April for a gain of 0.33 percent. Compared to April 2003, the Leading Index in April 2004 was up 4.45 percent, attaining its second highest value ever falling only 1 point lower than its all-time peak of 109.1 registered in December 1999. The Leading Index has been tracking higher since mid-2003 exceeding its previous year's same-month values for twelve consecutive months starting in May 2003. This upward trend is clearly visible in the track of its 12-month moving average line. In April, three of the Index's five components contributed to its gain.

- Initial claims for unemployment insurance decreased (improved) in March and have improved in nine of the last twelve months;
- Residential building permits increased for the fourth time in five months; and,
- The total value of residential building permits was up for a second month; while,
- Consumer expectations (consumer confidence six months hence) fell for the third month in a row; and,
- New automobile registrations were down sharply in April.

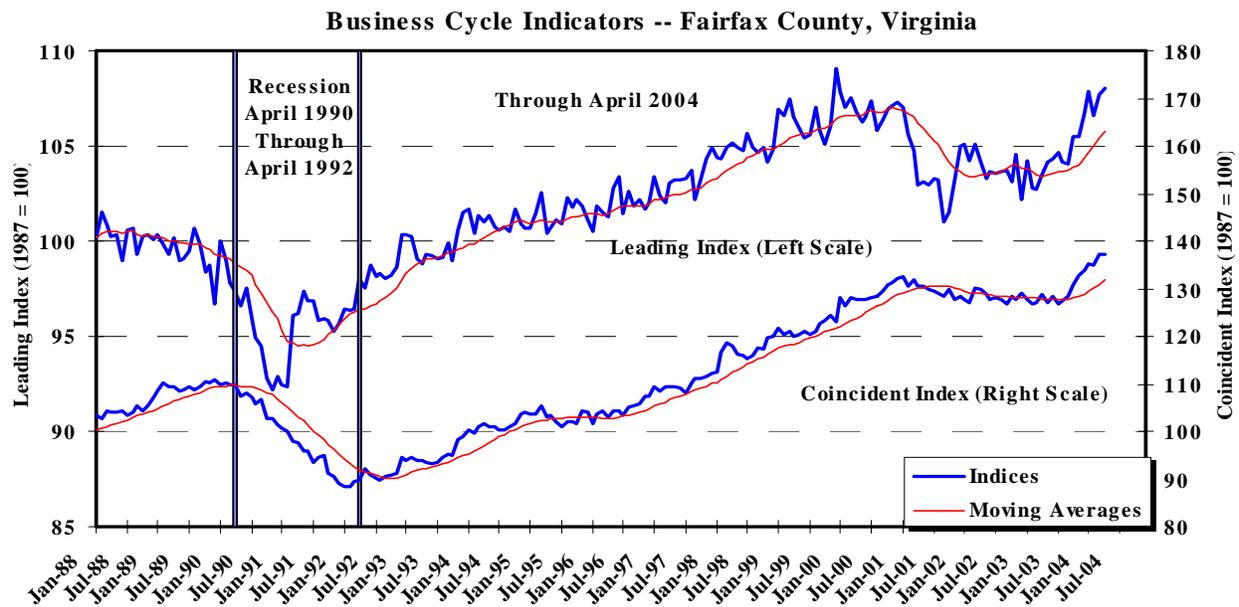
The Fairfax County economy continued to expand in April with both the Leading and Coincident Indices registering strong monthly over-the-year increases. With the Leading Index up for twelve months and the Coincident Index up for eight, the pattern of the expansion has been clear. Strong job growth and a tightening labor market have led the economy's recovery with consumer and business spending gaining strength but still reflecting some volatility in response to lagging confidence. As consumer confidence strengthens in the coming months, the Fairfax County economy will accelerate further and become more consistent across all sectors.

CURRENT CONDITIONS

The Fairfax County economy has achieved a sustained rate of growth similar to its strong performance in 1998. Its Coincident Index, which measures the economy's current performance, was up 6.7 percent from April 2003. Job growth, which lags economic growth, was up 4.7 percent from April 2003, for an estimated gain of 27,780 new jobs. Unemployment dropped to 1.7 percent, down from 2.4 a year ago.

The fundamental signs of the economy's health present an unequivocal measure of strength in spite of some continuing volatility across the breadth of the economy. This volatility continues to be present in consumer attitudes, especially about the future, and this appears to be affecting consumer spending. Still, consumer confidence (in the present) has improved during March and April and is up 21 percent from a year ago. Consumer expectations have weakened in recent months and are only up 3.4 percent from April 2003. In the short term, anxiety over the future may be deterring some "big ticket" purchases as seen in lower automobile sales and weaker retail sales overall. However, historic evidence shows that in a strong economy these deferred sales are captured in a subsequent month so retail sales that were down in April from March would be expected to rebound in May or June, and for the year, will be running ahead of 2003 as they have been so far this year—sales in April were 4.3 percent greater than in April 2003.

The key measure of the economy's continuing and growing strength is seen in its ability to generate new jobs. Each month this year (on a monthly over-the-year basis), the number of net new jobs cre-



Source: Center for Regional Analysis, George Mason University

ated in the County has increased. This same pattern has occurred in Northern Virginia, which added 48,400 new jobs from April 2003 to April 2004, and also for the full Washington metropolitan area, which registered a job gain of 77,300 new jobs. Fairfax County's share of Northern Virginia's total job gain in April of 57.4 percent was slightly greater than its long-term average share of 55 percent.

Understanding that Northern Virginia's job gain in April was greater than the job gain registered by any entire metropolitan area provides a useful reference point for judging the magnitude and significance of Northern Virginia's and Fairfax County's current economic performance. The Washington area's unemployment rate of 2.8 percent in April was also the lowest of any metro area in the nation and Fairfax's unemployment rate of 1.7 percent places it among the best nationwide. The economic conditions underpinning the strong labor market performance bode well for the remainder of the year and will likely carry over through 2005 and be reflected in all the indicators making 2004 clearly the best year since 2000 and possibly the best year for the economy for the entire decade.

NEAR-TERM OUTLOOK

Fairfax County's Leading Index has trended higher for twelve months and has regained almost all

of its losses. Since the Index peaked in December 1999, it moved lower in response to the slowdown in the national economy and to the local effects of the shake out and consolidation in the tech sector and the aftermath of 9/11. Anxiety concerning terrorism, war, corporate scandal, and the sell off in the financial markets were a drag on the economy as reflected in the Index's 3.5 percentage-point decline extending over two and one-half years (in the 12-month moving average). Since May of 2003, two-thirds of this decline has been re-claimed and the Leading Index's strong upward trend is pointing to accelerating expansion over the remainder of this year and continuing into 2005.

The key forward-looking indicators driving the forecast are initial claims for unemployment insurance (layoffs) and business confidence. Also, consumer expectations provide an important measure of future consumer spending. While consumer expectations have been down the last two months, the just-released May survey results show a strong rebound from April and an increase of 8 percent from May of 2003. Initial claims have decreased dramatically over the past year, declining 42 percent. This provides a strong indication that the positive labor market conditions will continue to strengthen. Business investment is difficult to measure at the county level but appears to be expanding at a healthy rate at the national level.

Fairfax County, Virginia Economic Indicators Current and Previous Months

Economic Indicator	Estimates			Percent Change	
	Apr-04 Prelim.	Mar-04 Final	Apr-03 Final	Mar-04 to Apr-04	Apr-03 to Apr-04
Fairfax County Business Cycle Indicators					
Coincident Index (1987 = 100)	137.38	137.17	128.79	0.15	6.67
Leading Index (1987 = 100)	108.07	107.72	103.46	0.33	4.45
Fairfax County Coincident Index Components					
Estimated Total Wage & Salary Employment (Seasonally Adjusted)	625,777	622,901	597,764	0.46	4.69
<i>Estimated Total Wage & Salary Employment (Unadjusted)</i>	620,589	618,005	592,809	0.42	4.69
Transient Occupancy Tax (\$'000='87, Smoothed, Seasonally Adjusted)	404	375	324	7.72	24.67
<i>Transient Occupancy Tax (\$'000=Current, Smoothed Only)</i>	642	571	499	12.51	28.78
Sales Tax Receipts (\$'000='87, Seasonally Adjusted)	8,546	10,233	8,094	-16.48	5.59
<i>Sales Tax Receipts (\$'000=Current, Unadjusted)</i>	10,827	12,572	10,382	-13.88	4.29
South Atlantic Consumer Confidence	116.7	112.7	96.7	3.55	20.68
Fairfax County Leading Index Components					
New Automobile Registrations (Seasonally Adjusted)	5,483	7,211	7,156	-23.97	-23.38
<i>Automobile Registrations (Unadjusted)</i>	5,390	6,218	7,035	-13.32	-23.38
Initial Unemployment Claims (Seasonally Adjusted)	1,054	1,182	1,811	-10.85	-41.81
<i>Initial Unemployment Claims (Unadjusted)</i>	1,044	1,295	1,794	-19.38	-41.81
<i>South Atlantic Consumer Expectations (Unadjusted)</i>	94.3	99.3	91.2	-5.04	3.40
Residential Building Permits (Number of Units, Seasonally Adjusted)	1,148	759	233	51.25	392.79
<i>Residential Building Permits (Number of Units, Unadjusted)</i>	844	558	243	51.25	247.33
Residential Building Permit Value (\$'000='87, Seasonally Adjusted)	51,412	41,875	21,557	22.78	138.50
<i>Residential Building Permit Value (\$=Current, Unadjusted)</i>	71,739	58,039	40,197	23.60	78.47
Fairfax County Labor Force (Rebenchmarked)					
Total Labor Force (Seasonally Adjusted)	584,441	583,691	564,195	0.13	3.59
<i>Total Labor Force (Unadjusted)</i>	583,506	580,796	563,292	0.47	3.59
Employed Labor Force (Seasonally Adjusted)	573,077	571,448	549,248	0.29	4.34
<i>Employed Labor Force (Unadjusted)</i>	573,395	569,304	549,553	0.72	4.34
Unemployed Labor Force (Seasonally Adjusted)	11,364	12,244	14,947	-7.18	-23.97
<i>Unemployed Labor Force (Unadjusted)</i>	10,111	11,492	13,739	-12.02	-26.41
Unemployment Rate (Percent, Seasonally Adjusted)	1.94	2.10	2.65	--	--
<i>Unemployment Rate (Percent, Unadjusted)</i>	1.73	1.98	2.44	--	--

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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