

# Fairfax County Economic Index

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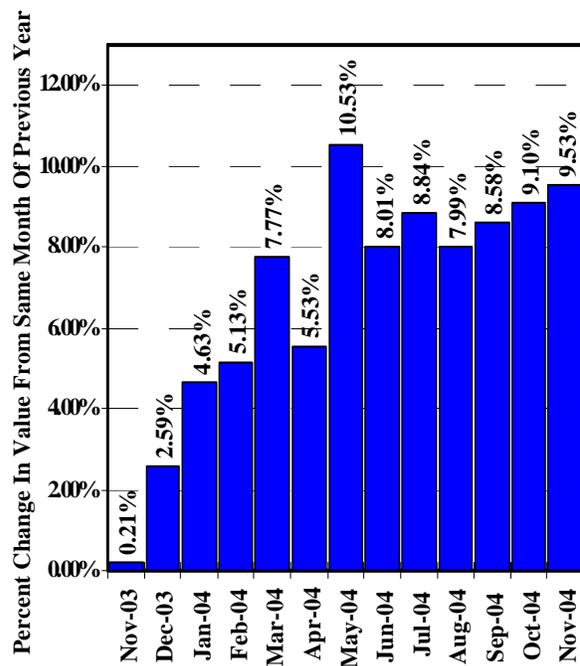
January 2005

## Economy Slows In November But Forecast Remains Good for 2005

The **Fairfax County Coincident Index**, which represents the current state of the County's economy, decreased to 141.51 in November for a loss of 1.63. In spite of this decline, the Index continues to trend up having increased in eight of the last twelve months. November's Index value was up 9.5 percent over November 2003 extending its monthly over-the-year positive trend to a fourteenth consecutive month. In November, two of the Index's four components were negative following two months in which all four had been positive.

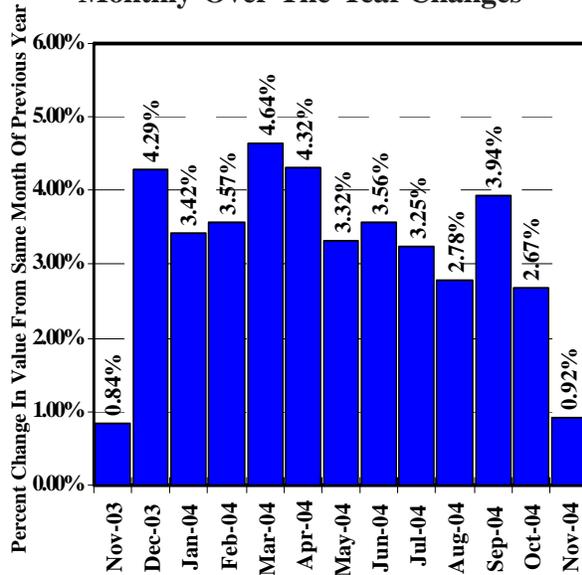
- Transient occupancy tax collections, adjusted for inflation and seasonal variation, declined following two strong monthly gains; and,
- Sales tax revenues, adjusted for inflation and seasonal variation, fell but for only the second time in seven months; while,
- Total employment was unchanged from its October level after registering gains for twenty consecutive months; and,
- Consumer confidence (in the present) increased for the second time in three months.

**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, decreased to 106.47 for a loss of 1.68 percent. Still, the Leading Index continues to track higher reflecting its eight month-to-month gains over the past twelve months. On a monthly over-the-year basis, the Leading Index was up 0.92 percent in November registering its nineteenth consecutive monthly increase dating from May 2003. This upward trend is clearly visible in the track of its 12-month moving average line that steadily increased over the past year and now exceeds its previous historic high set in November 2000. In November, the negative performance of four of the Index's five components contributed to its decrease.

- Consumer expectations (consumer confidence six months hence) decreased in November following two monthly gains;
- New residential building permits fell after registering strong increases in September and October;
- The total value of residential building permits declined sharply in November; and,
- New automobile sales fell for a second month; while,
- Initial claims for unemployment insurance decreased (improved) for the fourth time in five months.

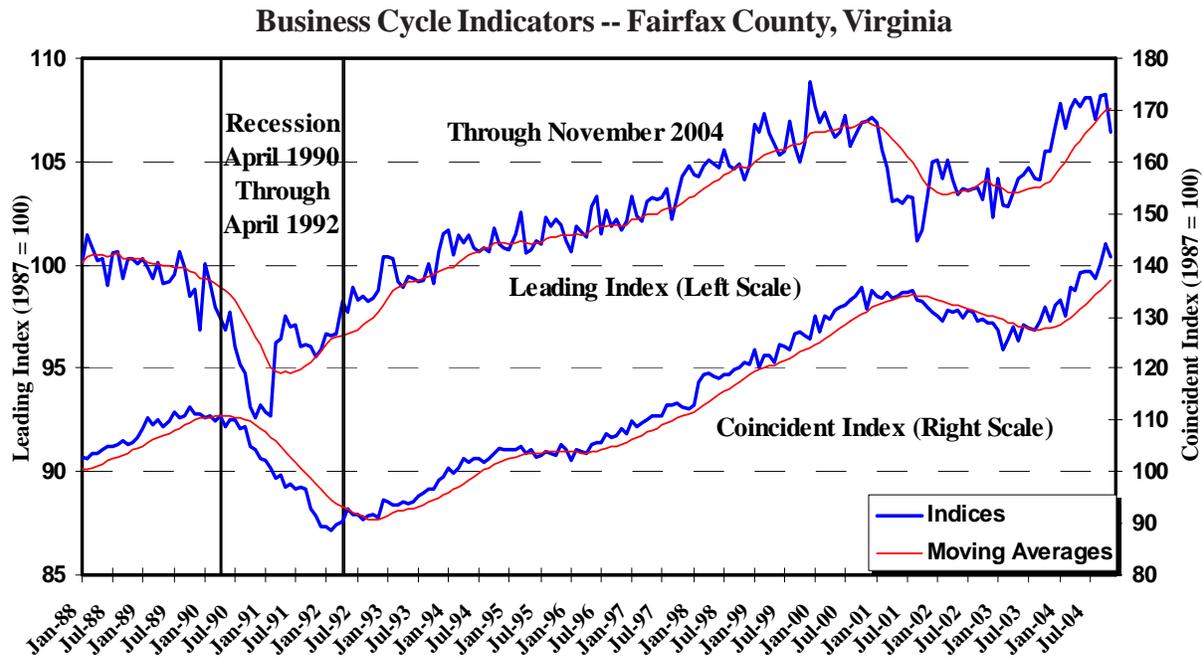
The Fairfax County economy moderated in November following strong gains in September and October. The slowdown registered in November cut across the breadth of the economy suggesting it was an adjustment to the economy's expansion over the previous year and not a change in its fundamentals. The Leading Index has sustained its upward trend for 19 months but has shown some deceleration now over the last six. However, over this period it has established new historic high values attesting to the strength of the County's economy at this stage of its expansion. The Coincident Index, while retreating slightly from October, continues to register very strong monthly over-the-year increases with these extending to a fourteenth month. While November's indicators may appear weaker compared to their performance in an unusually strong October, their gains from a year ago confirm the economy's continued strength and point to its growth continuing through 2005.

## CURRENT CONDITIONS

November's economic performance says more about the strength of the preceding two months than about the future. Gains in September and October were not sustainable and likely undercut November's performance. Rather than re-calibrating the economy each month as is the tendency during the early stages of an expansion, the long-term trends now provide more reliable information describing the health and direction of the County's economy.

The economy in the Washington area began to expand in advance of the national economy and the economies of all of its peers as a result of the surge in post-September 11, 2001 homeland security spending by the federal government. While the remainder of the national economy was waiting for the effects of historically low interest rates and a series of federal tax reductions to stimulate consumer and business spending, ramped up federal spending in 2001 jump-started the Washington area economy and it has substantially out-performed the nation and the other major metropolitan areas ever since. In effect, the Washington area had one to two years lead on the national expansion that did not take hold until 2004.

Fairfax County's economy has benefited the most among the Washington area's local jurisdictions from this surge in federal spending as demonstrated by its robust early performance. The early strength



Source: Center for Regional Analysis, George Mason University

of the County's expansion is seen in its twenty consecutive monthly of job gains. While no monthly gain was registered in November in the preliminary data, revised and re-benchmarked jobs data to be released in March are likely to report that the County's job base did in fact grow in November. Regardless, the Washington area has added approximately 70,000 new jobs during 2004, almost double the number of the next best metropolitan area (Las Vegas) with the major source of job gains coming from management and business services (Las Vegas' gains are dominated by lower-wage, seasonal retail and entertainment jobs). Fairfax County accounted for an estimated 35 percent of this metropolitan area job growth but only accounts for 20 percent of its population.

This job growth and its related increases in business and household earnings have propelled the County's economy, as well as the economies of adjacent jurisdictions, to a growth rate exceeding the metropolitan area and the nation by at least 3/4 percentage point (Northern Virginia is estimated to have grown 5.1% compared to the area's and nation's gain of 4.3% in 2004). For Fairfax County, this gain represents an inflation adjusted increase of \$3.44 billion in total output. This increased output and its prospects for continued growth will sustain the economy's health in 2005 and beyond.

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

While the Leading Index appears to be moderating, pointing to the expansion's initial acceleration transitioning to a pattern of more stable growth, the Coincident Index is continuing to reflect significant monthly over-the-year gains; 8 percent or better and still increasing for seven consecutive months through November. The magnitude of these monthly gains should not be expected to carry over into 2005. Rather, as the expansion matures, the County's economy should settle into a more normal pattern of growth in 2005 that will moderate as the expansion ages this year and into 2006 and beyond.

Consumer and business spending will smooth out in 2005 and the housing market will soften slightly (price increases move back to single-digits) to reflect higher interest rates and continuing uncertainty regarding the sustainability of the national expansion and concerns regarding energy price fluctuation, inflation, and terrorism. Still, continued strong federal spending, growth in spending by business and leisure visitors, increases in household earnings and related gains in consumer spending, and stronger job growth should support the County's economic growth in 2005 and 2006.

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

Economic Indicator	Estimates			Percent Change	
	Nov-04 Prelim.	Oct-04 Final	Nov-03 Final	Oct-04 to Nov-04	Nov-03 to Nov-04
<b>Fairfax County Business Cycle Indicators</b>					
Coincident Index (1987 = 100)	141.51	143.85	129.20	-1.63	9.53
Leading Index (1987 = 100)	106.47	108.30	105.51	-1.68	0.92
<b>Fairfax County Coincident Index Components</b>					
Estimated Total Wage & Salary Employment (Seasonally Adjusted)	642,656	642,658	616,458	0.00	4.25
<i>Estimated Total Wage &amp; Salary Employment (Unadjusted)</i>	647,039	642,632	620,662	0.69	4.25
Transient Occupancy Tax (\$'000='87, Smoothed, Seasonally Adjusted)	718	814	515	-11.71	39.51
<i>Transient Occupancy Tax (\$'000=Current, Smoothed Only)</i>	1,339	1,401	925	-4.44	44.63
Sales Tax Receipts (\$'000='87, Seasonally Adjusted)	9,470	9,790	8,513	-3.27	11.24
<i>Sales Tax Receipts (\$'000=Current, Unadjusted)</i>	12,396	11,798	10,794	5.07	14.84
South Atlantic Consumer Confidence	128.3	120.4	105.3	6.56	21.84
<b>Fairfax County Leading Index Components</b>					
New Automobile Registrations (Seasonally Adjusted)	5,810	5,864	6,035	-0.92	-3.73
<i>Automobile Registrations (Unadjusted)</i>	5,167	6,218	5,367	-16.90	-3.73
Initial Unemployment Claims (Seasonally Adjusted)	1,029	1,115	1,112	-7.71	-7.49
<i>Initial Unemployment Claims (Unadjusted)</i>	926	1,025	1,001	-9.66	-7.49
<i>South Atlantic Consumer Expectations (Unadjusted)</i>	100.3	108.7	103.0	-7.73	-2.62
Residential Building Permits (Number of Units, Seasonally Adjusted)	575	987	298	-41.74	93.07
<i>Residential Building Permits (Number of Units, Unadjusted)</i>	423	726	263	-41.74	60.84
Residential Building Permit Value (\$'000='87, Seasonally Adjusted)	17,102	40,011	22,036	-57.26	-22.39
<i>Residential Building Permit Value (\$=Current, Unadjusted)</i>	24,277	56,932	33,471	-57.36	-27.47
<b>Fairfax County Labor Force (Rebenchmarked)</b>					
Total Labor Force (Seasonally Adjusted)	590,091	592,174	574,290	-0.35	2.75
<i>Total Labor Force (Unadjusted)</i>	586,114	587,132	570,419	-0.17	2.75
Employed Labor Force (Seasonally Adjusted)	579,406	581,575	561,007	-0.37	3.28
<i>Employed Labor Force (Unadjusted)</i>	576,102	576,421	557,808	-0.06	3.28
Unemployed Labor Force (Seasonally Adjusted)	10,685	10,598	13,282	0.82	-19.56
<i>Unemployed Labor Force (Unadjusted)</i>	10,012	10,711	12,611	-6.53	-20.61
Unemployment Rate (Percent, Seasonally Adjusted)	1.81	1.79	2.31	--	--
<i>Unemployment Rate (Percent, Unadjusted)</i>	1.71	1.82	2.21	--	--

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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