



# Fairfax County Economic Index

Volume VIII, Number 10

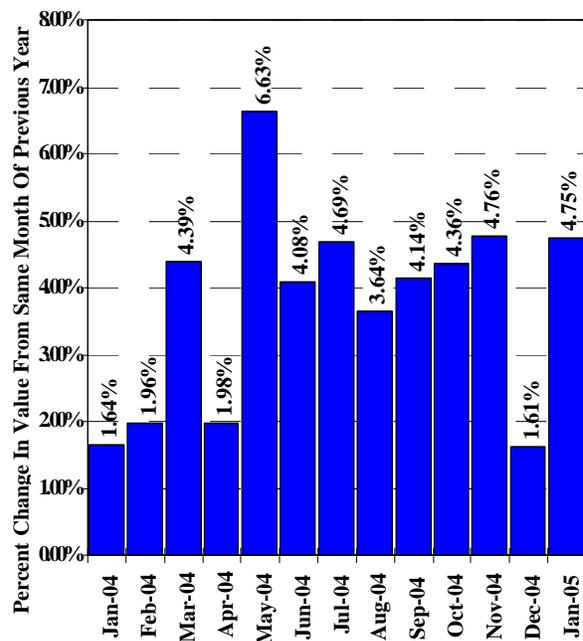
March 2005

## County Economy Is Stronger In January While Leading Indicators Are Weaker

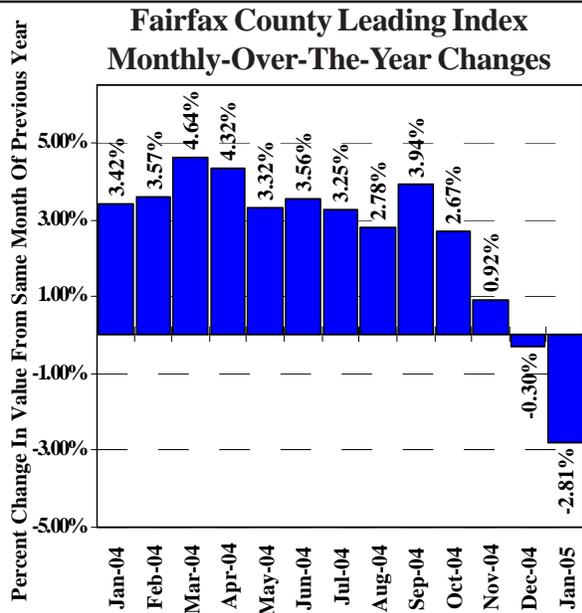
The **Fairfax County Coincident Index**, which represents the current state of the County's economy, increased to 135.0 in January for a gain of 2.68 percent. This increase reverses losses in November and December. With this gain, the Index continues to trend up having gained 4.75 percent over the last twelve months and has now been positive for sixteen consecutive months on a monthly over-the-year basis. In January, two of the Index's four components were positive.

- Transient occupancy tax collections, adjusted for inflation and seasonal variation, were up sharply following two monthly declines; and,
- Sales tax revenues, adjusted for inflation and seasonal variation, increased following two negative months; while,
- Total employment, which was re-benchmarked for 2003 and 2004, declined for a third consecutive month; and,
- Consumer confidence (in the present) decreased after gaining for two months.

**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**, which is designed to forecast the performance of the County's economy nine to twelve months in advance, decreased to 104.77 in January for a loss of 1.50 percent. The Leading Index has now decreased two months in a row and in three of the last six months and its twelve-month moving trend line has turned lower. On a monthly over-the-year basis, the Leading Index has been lower for two months and is now 2.8 percent below its January 2004 value. This reversal in the positive trend of the Leading Index is largely attributable to a sharp drop in residential building permits that has now extended to a third month. In January, the negative performance of three of the Index's five components was responsible for its decline.

- New residential building permits fell sharply for a third month;
- The total value of residential building permits also declined for a third month; and,
- Consumer expectations (consumer confidence six months hence) decreased for the second time in three months; while,
- Initial claims for unemployment insurance decreased (improved) for the second time in three months; and,
- New automobile sales were up for a second month.

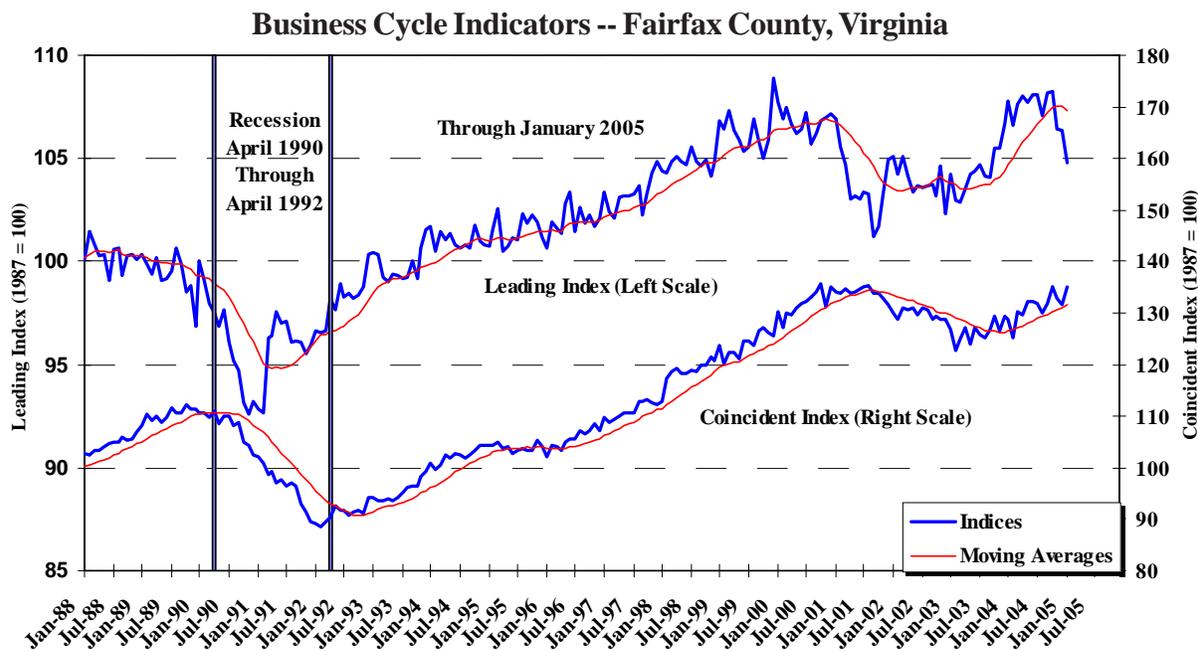
The Fairfax County economy performed well in January compared to December and to January 2004 while its leading indicators continue to exhibit weakness especially relating to residential building permits and related values.

The sharp decreases in permits and their values have brought the Leading Index lower than the respective same-month values last year and undercut the positive values of the other indicators. While this sharp three-month decline in residential permits ultimately may not be indicative of the economy's other sectors as has been true in the past, the downturn in the Leading Index is currently pointing to slower growth in the overall economy later in the year. In spite of the weakness in the leading indicators, the Fairfax County economy continued to grow in January extending its expansion to a fourth year.

## CURRENT CONDITIONS

The annual re-benchmarking of employment estimates by the US Department of Labor in cooperation with the Virginia Employment Commission resulted in significant revisions to the County's employment estimates for both 2003 and 2004. Previously revised estimates for 2003 were increased while preliminary estimates for 2004 were revised lower. The result of these revisions was to move job growth from 2004 back into 2003. And, by increasing monthly employment counts in 2003 relative to 2004, monthly over-the-year comparisons for the current period show little or no gains. These monthly comparisons are misleading and likely will be corrected with further updating as the year proceeds. Still, while job gains in 2004 are officially reported to be smaller, the overall employment gains over the past two years remain the largest in the Washington metropolitan area.

The true strength of the Northern Virginia economy during 2004 is seen in the 53,700 new jobs that were added accounting for almost 80 percent of the job growth reported for the entire Washington metropolitan area. Fairfax County has regularly (over the last 15 years) accounted for 55 percent of the job growth in Northern Virginia. Applying that percentage to last year's official job gain in Northern Virginia would indicate that Fairfax County gener-



Source: Center for Regional Analysis, George Mason University

ated 29,535 of these new jobs, a number only slightly larger than indicated in previous monthly Fairfax County Index reports. This higher level of job growth is supported by the gains achieved by the County's other economic indicators over the year.

The conclusion, then, is that the County economy is healthy in spite of the recently revised job growth numbers that appear contrary to other measures. Consumer spending is up as is business spending as indicated by a strong gain in transient occupancy tax revenues. While consumer confidence slipped in January, it grew in February, a signal that consumers are willing to take on more debt and increase their spending in the future. However, higher energy costs will likely shift some discretionary consumer spending from retail to gasoline purchases. This shift in consumer spending will cost the County's economy some growth this year as it did last year.

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

The Leading Index has declined for three months on a month-to-month basis, it has been down for two months on a monthly over-the-year basis, and the 12-month moving average trend line has now turned downward after peaking in November 2004.

The question is whether this reversal is predictive of the economy's future performance.

The weakness in the Leading Index has been largely explained by the dramatic reduction in the issuance of residential building permits. This has affected two of the Index's five components for the last three months. The performance patterns of new auto sales, initial claims for unemployment insurance and consumer expectations have been mixed but in aggregate over the past three months these three indicators have been positive.

Even though residential building permits reflect a seasonal pattern and have been adjusted accordingly it is possible that other non-economic factors have impacted this indicator. If this is so, it should rebound sharply during the coming months and drive the Leading Index back into its previous trajectory, erasing current concerns that the economy has peaked and is facing an imminent slowdown. As the second quarter is normally influenced by housing starts and re-sales, this pattern should be clarified by mid-year. In the meantime, the broad based indicators continue to point to a strong economic performance in 2005 although not as strong as was registered in 2004.

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

Economic Indicator	Estimates			Percent Change	
	Jan-05 Prelim.	Dec-04 Final	Jan-04 Final	Dec-04 to Jan-05	Jan-04 to Jan-05
<b>Fairfax County Business Cycle Indicators</b>					
Coincident Index (1987 = 100)	135.00	131.48	128.88	2.68	4.75
Leading Index (1987 = 100)	104.77	106.37	107.81	-1.50	-2.81
<b>Fairfax County Coincident Index Components</b>					
Estimated Total Wage & Salary Employment (Seasonally Adjusted)	603,904	607,644	602,725	-0.62	0.20
<i>Estimated Total Wage &amp; Salary Employment (Unadjusted)</i>	<i>596,011</i>	<i>617,026</i>	<i>594,847</i>	<i>-3.41</i>	<i>0.20</i>
Transient Occupancy Tax (\$'000='87, Smoothed, Seasonally Adjusted)	869	693	606	25.54	43.36
<i>Transient Occupancy Tax (\$'000=Current, Smoothed Only)</i>	<i>1,517</i>	<i>1,329</i>	<i>1,005</i>	<i>14.11</i>	<i>50.86</i>
Sales Tax Receipts (\$'000='87, Seasonally Adjusted)	9,971	9,063	9,449	10.02	5.53
<i>Sales Tax Receipts (\$'000=Current, Unadjusted)</i>	<i>10,648</i>	<i>16,783</i>	<i>9,790</i>	<i>-36.55</i>	<i>8.76</i>
South Atlantic Consumer Confidence	134.0	136.0	106.6	-1.47	25.70
<b>Fairfax County Leading Index Components</b>					
New Automobile Registrations (Seasonally Adjusted)	8,533	6,824	7,200	25.03	18.51
<i>Automobile Registrations (Unadjusted)</i>	<i>7,176</i>	<i>5,944</i>	<i>6,055</i>	<i>20.73</i>	<i>18.51</i>
Initial Unemployment Claims (Seasonally Adjusted)	1,019	1,111	1,085	-8.27	-6.08
<i>Initial Unemployment Claims (Unadjusted)</i>	<i>1,436</i>	<i>1,083</i>	<i>1,529</i>	<i>32.59</i>	<i>-6.08</i>
<i>South Atlantic Consumer Expectations (Unadjusted)</i>	<i>103.0</i>	<i>107.0</i>	<i>111.6</i>	<i>-3.74</i>	<i>-7.71</i>
Residential Building Permits (Number of Units, Seasonally Adjusted)	118	443	798	-73.31	-85.18
<i>Residential Building Permits (Number of Units, Unadjusted)</i>	<i>87</i>	<i>326</i>	<i>587</i>	<i>-73.31</i>	<i>-85.18</i>
Residential Building Permit Value (\$'000='87, Seasonally Adjusted)	7,197	14,343	31,331	-49.82	-77.03
<i>Residential Building Permit Value (\$=Current, Unadjusted)</i>	<i>9,114</i>	<i>20,496</i>	<i>42,830</i>	<i>-55.53</i>	<i>-78.72</i>
<b>Fairfax County Labor Force</b>					
Total Labor Force (Seasonally Adjusted)	570,240	587,265	579,178	-2.90	-1.54
<i>Total Labor Force (Unadjusted)</i>	<i>563,472</i>	<i>583,589</i>	<i>572,304</i>	<i>-3.45</i>	<i>-1.54</i>
Employed Labor Force (Seasonally Adjusted)	555,045	575,589	565,940	-3.57	-1.93
<i>Employed Labor Force (Unadjusted)</i>	<i>548,273</i>	<i>573,135</i>	<i>559,035</i>	<i>-4.34</i>	<i>-1.93</i>
Unemployed Labor Force (Seasonally Adjusted)	15,195	11,677	13,238	30.13	14.78
<i>Unemployed Labor Force (Unadjusted)</i>	<i>15,199</i>	<i>10,454</i>	<i>13,269</i>	<i>45.39</i>	<i>14.55</i>
Unemployment Rate (Percent, Seasonally Adjusted)	2.66	1.99	2.29	--	--
<i>Unemployment Rate (Percent, Unadjusted)</i>	<i>2.70</i>	<i>1.79</i>	<i>2.32</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 vice 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. In September 2004, the Transient Occupancy Tax was increased from 2% to 4%. All original values prior to September 2004 were doubled for consistency.

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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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