

Fairfax County Economic Index

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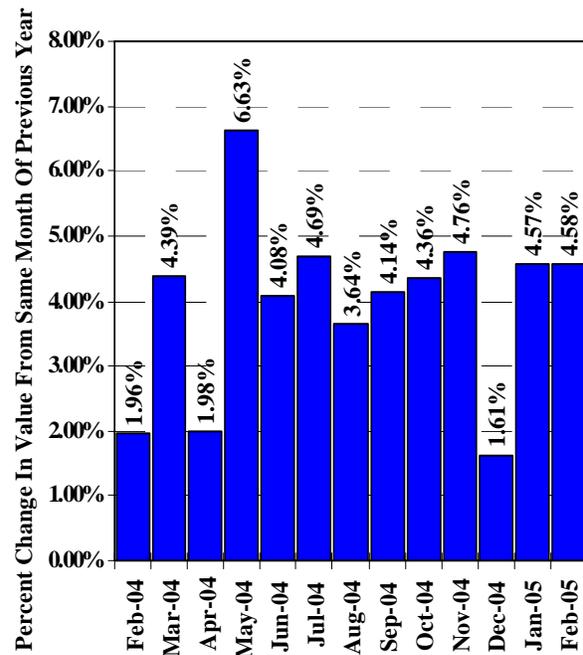
April 2005

The County Economic Expansion Slows In February, Outlook Remains Good

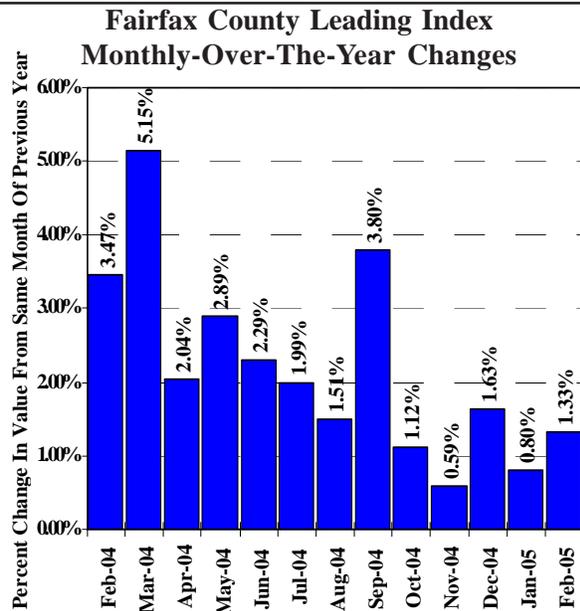
The **Fairfax County Coincident Index**, which represents the current state of the County's economy, decreased to 130.94 in February for a loss of 2.84 percent. The Index has now declined in three of the past four months and in seven of the past twelve months. However, these monthly decreases have been smaller than the intervening monthly gains and, as a result, the overall Index has moved higher over the previous year with its 12-month moving average almost regaining its November 2001 peak value. On a monthly over-the-year basis, the Coincident Index was up 4.58 percent in February extending these gains to a fifteenth consecutive month. In February, three of the Index's four components were negative.

- Transient occupancy tax collections, adjusted for inflation and seasonal variation, were down for the third time in four months;
- Sales tax revenues, adjusted for inflation and seasonal variation, declined for the third time in four months; and,
- Total employment, which had been re-benchmarked in March for 2003 and 2004, declined for a fourth consecutive month; while,
- Consumer confidence (in the present) increased for the third time in four months.

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



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, decreased to 107.96 in February for a loss of 0.72 percent. The performance of the Leading Index was distorted in December's and January's analyses by the dramatic decrease in reported residential building permits. As these sharp decreases were due to a data reporting problem and not a change in market conditions, the erroneous indicators have been removed from the Index and it has been re-calculated. The resulting monthly Index values and its historic 12-month moving-average line correspond closely to the Index's historic series with the exception of its sharp declines in the previous two months that, in light of the re-calculation, should have been reported as gains. The Leading Index will be restored to its previous composition as soon as the data problem is resolved.

In spite of February's decline in the Index, its value remained higher than in February 2004 by 1.33 percent and the Leading Index continued to exceed same-month values from the previous year for a 23rd consecutive month. In February, one of the remaining three leading indicators was sufficiently negative to turn the Index negative.

- New automobile sales were down sharply in February following two strong months; while,

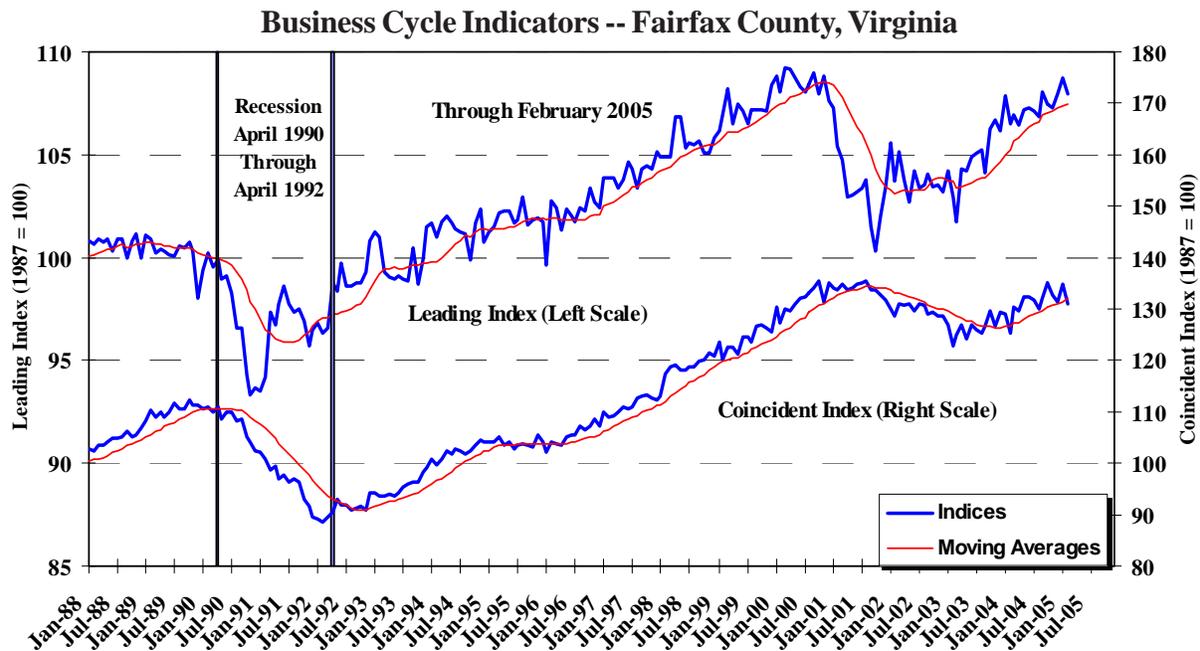
- Consumer expectations (consumer confidence six months hence) increased for the fourth time in six months; and,
- Initial claims for unemployment insurance decreased (improved) for the third time in four months.

The Fairfax County economy decelerated in February in response to higher energy costs and seasonal factors. Still, it out-performed its February 2004 values in terms of its labor force indicators and consumer confidence and spending. As the economy adjusts to higher energy costs, it is likely to follow a more-moderate growth path into the summer months. Overall, however, the strength of the County's economy will enable it to absorb these higher costs and regain its momentum over the year's second half.

CURRENT CONDITIONS

The slowing of the Coincident Index's upward track over the last three months is explained by several intersecting forces: slowly rising interest rates, the aging of the expansion (its into its fourth year), the sharp increase in energy prices for the second year, and the weather. As the Coincident Index continues to out-perform its same-month values going back to October 2003, its weaker performance over the last three months is still an improvement from economic conditions a year ago.

The strength of the local and national economy in 2004 and early 2005 is confirmed by its continuing growth in spite of energy price increases of more than 50 percent since January 2004. In previous periods of rapid energy price increases (1974, 1978, 1980, 1981, 1990 and 2000), the economy was pushed into recession. This time, higher energy prices cost the economy some of its growth. At the national level, GDP gains were projected to be 4.7% in 2004 but ended up at 4.4%. Locally, higher energy costs did not appear to hurt the economy in a measurable way in 2004 except possibly in slightly slower job growth than expected although the region still substantially out-performed any other metropolitan area in the country. Given the size and strength of the Fairfax County economy, its continued vitality over the long run will be more significantly influenced by federal procurement spending policy than by energy prices.



Source: Center for Regional Analysis, George Mason University

The key measure of the County's economic performance on a monthly basis is its labor market and consumer spending patterns. These are both volatile and respond to short-term indicators and seasonal conditions. Job growth has slowed after registering substantial gains in 2003 and 2004. Initial claims for unemployment insurance continued to drop (improve) but unemployment has inched up. These conflicting patterns do not point to an end of the expansion. Actually, these conditions are generally still better than a year ago. Rather, they would seem to suggest that the County's economy is taking a break from its rapid gains of the past year. Business investors are waiting to see if the energy price run up will moderate, how it might impact consumer spending, and whether inflation worries will force the Federal Reserve Bank to accelerate its interest rate increases. This waiting period could extend through the second quarter before a clear direction becomes apparent.

Consumers are on hold, too. With tax season and energy price gains overlapping, retail sales have softened; this is a national trend. In particular and not unexpectedly, automobile sales have declined sharply for several months. Still, consumer confidence—both in the present and expectations—grew in February. Consumers are waiting to see what happens to prices, interest rates, taxes, and other

uncertainties. But rather than being pessimistic about this uncertainty as they were last year, consumers are viewing the economy with some optimism. The economic gains over the past year, especially job growth, have the public on board and expecting continued growth over at least the coming six months. By late spring, especially if gasoline prices pull back from their spring peaks, consumers will start spending again. This resumption of spending will be important to determining the economy's performance in the second half.

NEAR-TERM OUTLOOK

The components of the Leading Index are sending mixed signals. The Index has lost some of its strength over the past six months but it continues to grow on a monthly over-the-year basis. Its current weakness points to a period of repositioning of productive resources by investors and business decision makers. Also, consumers are re-evaluating their financial positions being faced with interest rate increases, worries about inflation, and energy price growth. These will be sorted out during the second quarter and the underlying strength of the County's economy will emerge as the driving force in a moderate re-acceleration of growth over the remainder of 2005.

Fairfax County, Virginia Economic Indicators Current and Previous Months

Economic Indicator	Estimates			Percent Change	
	Feb-05 Prelim.	Jan-05 Final	Feb-04 Final	Jan-05 to Feb-05	Feb-04 to Feb-05
Fairfax County Business Cycle Indicators					
Coincident Index (1987 = 100)	130.94	134.77	125.20	-2.84	4.58
Leading Index (1987 = 100)	107.96	108.75	106.54	-0.72	1.33
Fairfax County Coincident Index Components					
Estimated Total Wage & Salary Employment (Seasonally Adjusted)	602,808	603,606	602,675	-0.13	0.02
<i>Estimated Total Wage & Salary Employment (Unadjusted)</i>	<i>594,851</i>	<i>595,717</i>	<i>594,720</i>	<i>-0.15</i>	<i>0.02</i>
Transient Occupancy Tax (\$'000='87, Smoothed, Seasonally Adjusted)	763	869	532	-12.26	43.28
<i>Transient Occupancy Tax (\$'000=Current, Smoothed Only)</i>	<i>1,383</i>	<i>1,517</i>	<i>917</i>	<i>-8.81</i>	<i>50.80</i>
Sales Tax Receipts (\$'000='87, Seasonally Adjusted)	8,254	9,971	8,176	-17.22	0.95
<i>Sales Tax Receipts (\$'000=Current, Unadjusted)</i>	<i>10,741</i>	<i>10,648</i>	<i>10,362</i>	<i>0.87</i>	<i>3.66</i>
South Atlantic Consumer Confidence	139.0	132.0	106.2	5.30	30.89
Fairfax County Leading Index Components					
New Automobile Registrations (Seasonally Adjusted)	5,062	8,533	6,328	-40.68	-20.01
<i>Automobile Registrations (Unadjusted)</i>	<i>4,061</i>	<i>7,176</i>	<i>5,077</i>	<i>-43.41</i>	<i>-20.01</i>
Initial Unemployment Claims (Seasonally Adjusted)	934	1,019	1,285	-8.33	-27.35
<i>Initial Unemployment Claims (Unadjusted)</i>	<i>1,012</i>	<i>1,436</i>	<i>1,393</i>	<i>-29.53</i>	<i>-27.35</i>
South Atlantic Consumer Expectations (Unadjusted)	109.3	102.8	105.3	6.32	3.80
Fairfax County Labor Force					
Total Labor Force (Seasonally Adjusted)	580,051	580,555	578,776	-0.09	0.22
<i>Total Labor Force (Unadjusted)</i>	<i>574,779</i>	<i>573,664</i>	<i>573,515</i>	<i>0.19</i>	<i>0.22</i>
Employed Labor Force (Seasonally Adjusted)	565,304	565,414	565,476	-0.02	-0.03
<i>Employed Labor Force (Unadjusted)</i>	<i>560,321</i>	<i>558,515</i>	<i>560,491</i>	<i>0.32</i>	<i>-0.03</i>
Unemployed Labor Force (Seasonally Adjusted)	14,747	15,141	13,300	-2.60	10.88
<i>Unemployed Labor Force (Unadjusted)</i>	<i>14,458</i>	<i>15,149</i>	<i>13,024</i>	<i>-4.56</i>	<i>11.01</i>
Unemployment Rate (Percent, Seasonally Adjusted)	2.54	2.61	2.30	--	--
<i>Unemployment Rate (Percent, Unadjusted)</i>	<i>2.52</i>	<i>2.64</i>	<i>2.27</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. 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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