



Fairfax County Economic Index

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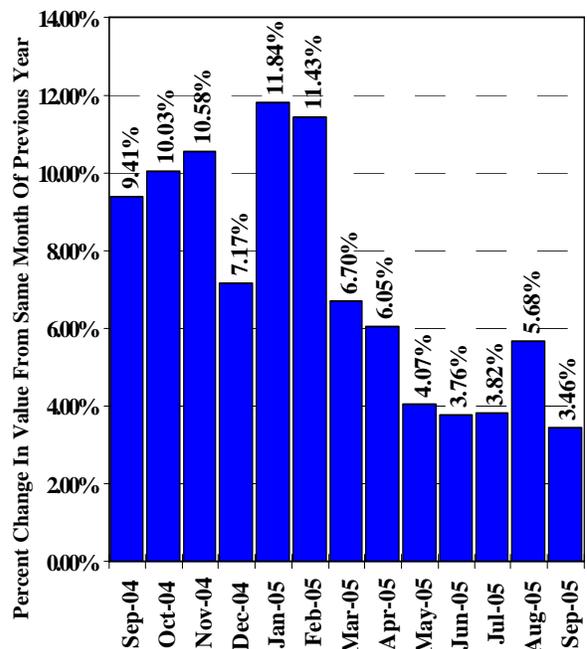
November 2005

The Fairfax County Economy Slows in September

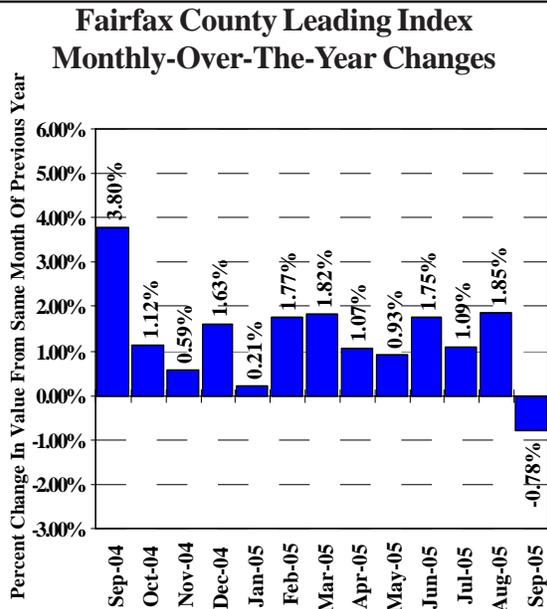
The **Fairfax County Coincident Index**, which represents the current state of the County's economy, decreased to 132.47 in September for a 0.26 percent decline extending its seesawing performance that has characterized this year. Compared to September 2004, the Coincident Index was up 3.46 percent registering its smallest monthly over-the-year gain of the year. This increase extends its positive trend to a twenty-second consecutive month. In September, three of the Index's four indicators were negative.

- Consumer confidence (in the present) declined for the second time in two months;
- Sales tax revenues, adjusted for inflation and seasonal variation, decreased for the second month;
- Transient occupancy tax collections, adjusted for inflation and seasonal variation, also fell for a second month; while,
- Total employment increased in September extending its gain in August.

**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 in September to 107.24 for a loss of 1.45 percent and has now been down in two of the last three months. This decrease in September turned the Index negative on a monthly over-the-year basis for the first time in thirty (30) months. In September, two of the Index's three indicators contributed to its decline.

- Consumer expectations (consumer confidence six months hence) decreased for the third consecutive month; and,
- New automobile sales fell for the second time in three months; while,
- Initial claims for unemployment insurance decreased (improved) for the third time in four months.

The Fairfax County economy slowed in September falling back to its summer pattern. This performance parallels the national trend in response to the run up in energy costs associated with Hurricane Katrina and Rita. The sharp decline in consumer spending associated with record-high gasoline prices and a fall off in consumer confidence combined to bring both the Leading and Coincident Indices lower. That the September Leading Index fell 0.78 percent below its September 2004 level and registered the first monthly over-the-year decline in thirty months confirms the

moderation that has been building in the economy since the end of the first quarter. The future direction of the economy will be revealed over the coming six months but in the short term the signal being provided is that the County's economy will experience more moderate expansion over the remainder of 2005 and early months of 2006.

CURRENT CONDITIONS

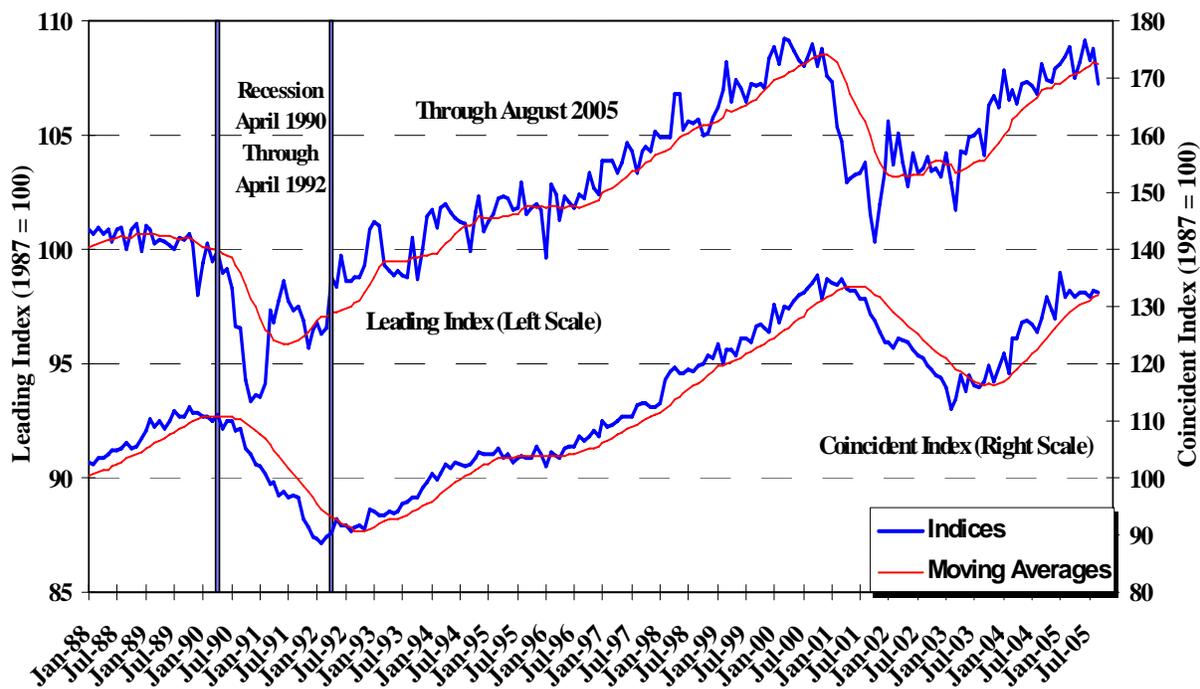
The Coincident Index moved lower in September with only employment growth providing a positive measure of the economy's underlying strength. Taken over the last six months, the Index's trend is basically flat consisting of four negative and two positive months with off setting values. As a result, the 12-month moving average trend has slowed its previously sharp upward direction—it is still moving higher but at a decelerating rate.

With the Leading Index also flattening out, all signs are pointing to the fourth quarter's economic performance looking more like the second and third quarter than the year's first quarter, its best of the current cycle. The reasons that the economy has cooled down relate to changes in consumer spending more than the all-important external drivers of the County's economy. With consumer confidence suffering from price shock at the gas pump and concerns about rising home heating bills over the coming winter, retail spending has slowed. Higher interest rates and the constant media attention to the potential housing "bubble" along with rising consumer prices hit the housing market hard in August and housing sales of new and existing homes have felt the chill.

Gasoline prices and the softening of housing sales have caught the attention of the consumers and they have reacted by cutting back. The good news is that the very visible gasoline prices have dropped back to their pre-Katrina levels and even lower in many portions of Northern Virginia in November. This will take some pressure (real and psychological) off shoppers just in time for the holiday sales push. Still, projections for year-end shopping gains are for a moderate 5 percent gain over last year.

Lagging consumer confidence, higher home heating bills, and higher interest rates will temper consumer spending over the remainder of this year and will be a drag on spending next year. This will not take consumers out of the economy it will just shift their role from leader of the pack to follower with business and government spending having to step up to drive the economy forward.

Business Cycle Indicators -- Fairfax County, Virginia



Source: Center for Regional Analysis, George Mason University

The positive job growth trend in Fairfax County suggests that the business and government sectors are stepping up their spending as consumer spending fades. Job growth remains strong in the region—Washington is still number one nationally averaging slightly more than 80,000 net new jobs on an annualized basis for 2005—with Fairfax County's job gains running about 21,700 for the year ending in September. The job growth rate in Fairfax County of 3.7 percent is almost a full percentage point greater than the Washington metropolitan area's job growth rate (2.8%) and the County's unemployment rate of 2.3 percent is almost a full percentage point lower than the area's rate (3.2%) which is the lowest in the country among major metro areas.

The County's continued high job growth points to its strong productive base; new jobs reflect new business, increased household incomes, and expanding consumer spending potential. The County's job growth will be the key force in re-igniting the expansion once the shock of the temporarily higher energy prices of last summer work their way through the economy over the winter. Of course, federal government spending remains the principal driving force and there is no sign of any major shift on procurement policy that will adversely impact the County's economy. Adding to the federal flow of dollars is an increasing

level of State and County government spending that had been deferred over the past several years as a result of revenue short falls.

NEAR-TERM OUTLOOK

The Leading Index is pointing to slower growth over the coming six months. If it continues to lag, the County's economic expansion that is still young by recent standards could wind down. However, the more likely outlook is that following several slower growth quarters, the expansion will reaccelerate in 2006 as increasing business and government spending combines with moderate gains in consumer spending to provide a more balanced growth pattern in 2006 and 2007.

The economy is at its first turning point of the current cycle. This bears watching even though it seems tied to conditions that should not be viewed as being a fundamental threat. Energy costs have already moderated and the greatest increases in interest rates have already occurred. As these performance-affecting forces become more predictable, consumers will re-enter the economy in the spring with money to spend. This combination of business, government and consumer spending should provide the correct blend to fuel the economy's growth for several more years.

Fairfax County, Virginia Economic Indicators Current and Previous Months

Economic Indicator	Estimates			Percent Change	
	Sep-05 Prelim.	Aug-05 Final	Sep-04 Final	Aug-05 to Sep-05	Sep-04 to Sep-05
Fairfax County Business Cycle Indicators					
Coincident Index (1987 = 100)	132.47	132.82	128.04	-0.26	3.46
Leading Index (1987 = 100)	107.24	108.82	108.08	-1.45	-0.78
Fairfax County Coincident Index Components					
Estimated Total Wage & Salary Employment (Seasonally Adjusted)	614,328	610,602	592,638	0.61	3.66
<i>Estimated Total Wage & Salary Employment (Unadjusted)</i>	614,992	610,895	593,278	0.67	3.66
Transient Occupancy Tax (\$'000='87, Smoothed, Seasonally Adjusted)	755	762	712	-0.86	6.13
<i>Transient Occupancy Tax (\$'000=Current, Smoothed Only)</i>	1,467	1,444	1,344	1.59	9.13
Sales Tax Receipts (\$'000='87, Seasonally Adjusted)	8,997	9,134	9,371	-1.50	-3.99
<i>Sales Tax Receipts (\$'000=Current, Unadjusted)</i>	12,861	11,988	12,179	7.28	5.60
South Atlantic Consumer Confidence	139.5	150.9	122.1	-7.55	14.25
Fairfax County Leading Index Components					
New Automobile Registrations (Seasonally Adjusted)	5,588	7,831	6,545	-28.63	-14.62
<i>Automobile Registrations (Unadjusted)</i>	6,355	8,852	7,443	-28.21	-14.62
Initial Unemployment Claims (Seasonally Adjusted)	876	936	944	-6.41	-7.22
<i>Initial Unemployment Claims (Unadjusted)</i>	733	863	790	-15.06	-7.22
South Atlantic Consumer Expectations (Unadjusted)	83.7	97.1	103.3	-13.80	-18.97
Fairfax County Labor Force					
Total Labor Force (Seasonally Adjusted)	600,114	590,978	584,318	1.55	2.70
<i>Total Labor Force (Unadjusted)</i>	595,786	599,128	580,104	-0.56	2.70
Employed Labor Force (Seasonally Adjusted)	586,574	575,119	574,272	1.99	2.14
<i>Employed Labor Force (Unadjusted)</i>	581,068	582,662	568,881	-0.27	2.14
Unemployed Labor Force (Seasonally Adjusted)	13,540	15,859	10,046	-14.63	34.77
<i>Unemployed Labor Force (Unadjusted)</i>	14,718	16,466	11,223	-10.62	31.14
Unemployment Rate (Percent, Seasonally Adjusted)	2.26	2.68	1.72	--	--
<i>Unemployment Rate (Percent, Unadjusted)</i>	2.47	2.75	1.93	--	--

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.

Prepared by:
Center for Regional Analysis
George Mason University
<http://cra.gmu.edu>

We are on the web at:
www.co.fairfax.va.us/comm/economic/economic.htm

Inquiries should be directed to:

The Fairfax County
Department of Management and Budget
12000 Government Center Parkway, Suite 561
Fairfax, Virginia 22035-0074

(703) 324-2391 or 1-800-828-1120 (TDY)