



Fairfax County Economic Index

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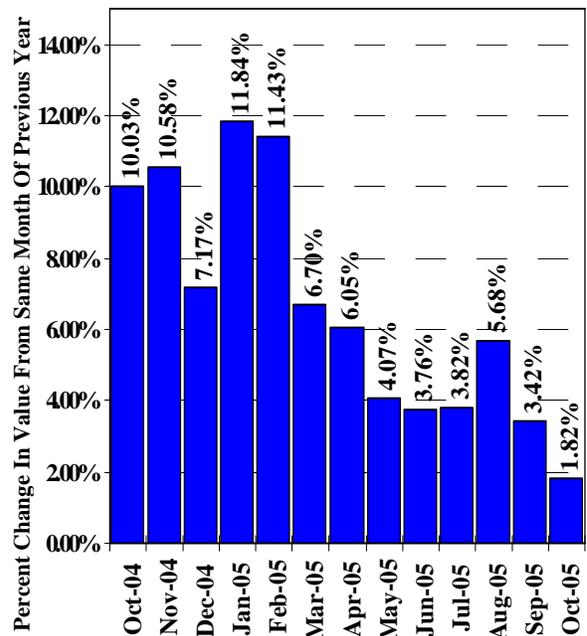
December 2005

The Fairfax County Economy Regains Momentum in October

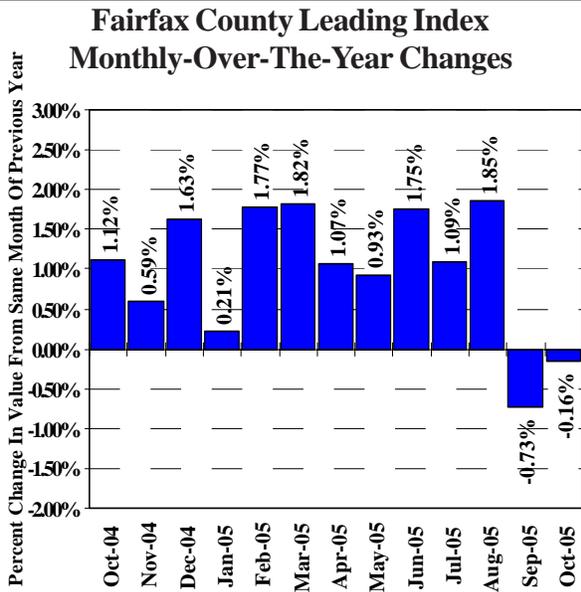
The **Fairfax County Coincident Index**, which represents the current state of the County's economy, increased to 134.07 in October for a 1.25 gain extending its seesawing performance that has characterized this year. Compared to October 2004, the Coincident Index was up 1.82 percent registering its smallest monthly over-the-year gain of the year. However, this increase extends the Index's positive trend to a twenty-third consecutive month. In October, three of the Index's four indicators were positive.

- Sales tax revenues, adjusted for inflation and seasonal variation, increased following two monthly declines; and,
- Transient occupancy tax collections, adjusted for inflation and seasonal variation, grew after declining in the two previous months; and,
- Total employment grew for the third consecutive month; while,
- Consumer confidence (in the present) declined for the third time in four 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 marginally in October to 107.28 for a loss of just 0.01 percent and has now been down for two consecutive months. This decrease turned the Index negative on a monthly over-the-year basis for only the second time in thirty-one (31) months. In October, two of the Index's three indicators contributed to its decline.

- New automobile sales fell for the third time in four months; and,
- Initial claims for unemployment insurance increased (worsened) for the second time in three months; while,
- Consumer expectations (consumer confidence six months hence) increased following three monthly declines.

The Fairfax County economy accelerated in October following its slower performance over the summer months. October's Index stood at its second highest level of the year (January's Index established a new all time peak value). This gain suggests that the economy's fundamentals remain sound. Going forward, however, the leading indicators reveal some accumulating weaknesses potentially pointing to the economy's moderation over the

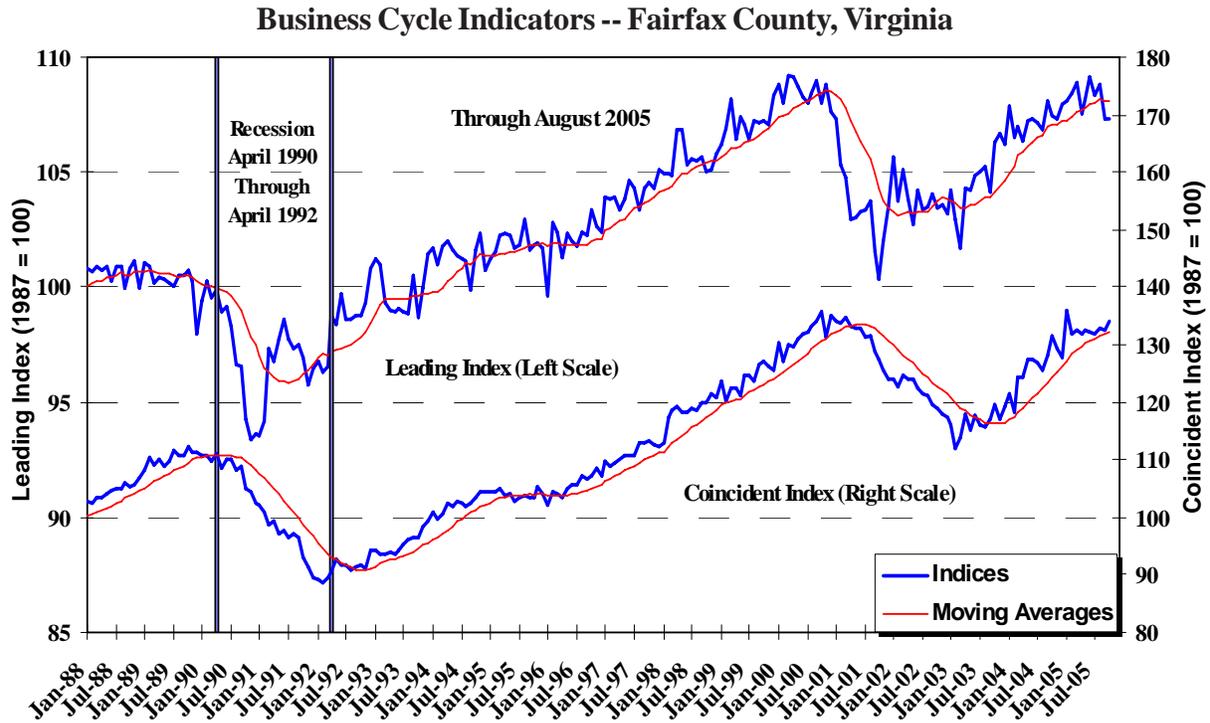
coming year. Consumer confidence and consumer spending have been the principal variables in the economy's performance over 2005. With confidence rising and household incomes growing, consumer spending should also strengthen. Combined with growing business investment and government spending, increased consumer spending should position Fairfax County's economy for a good year in 2006.

CURRENT CONDITIONS

The County continues to generate new jobs at an average annual rate of 3.7 percent, almost three times faster than the nation. In October, the County's job base was 22,100 greater than in October 2004. Although not the year's greatest monthly over-the-year gain, this level of job growth is strong by any comparative measure. The Washington metropolitan area continues to gain more jobs (net) than any other metropolitan area with an average of 80,500 added through ten months. With 22,100 new jobs, the Fairfax County economy accounted for 28 percent of the region's job gain while housing only 20 percent of its residents. This disproportional job growth underscores the important role the County's economy has achieved in the regional economy.

With this continuing job growth, the County has generated income growth and concomitant consumer spending potential that should propel the economy through the remainder of this year and into 2006 at a near peak performance level. Following the temporary shift of consumer spending away from retail consumption to gasoline as a result of its rapid price increases in August, retail sales in the County have lagged their 2004 levels. As energy prices retreated in October and November, retail spending is expected to resume its growth.

Consumer confidence (in the present) continues to lag reflecting concerns about higher energy costs and rising interest rates. However, consumer confidence has gained strongly since the beginning of the year and in November it registered a five percent increase. As consumers regain their comfort level with the economy based on its job gains and low unemployment rate and investor confidence grows, a more balanced growth trend will emerge in 2006, one not driven solely by federal spending.



Source: Center for Regional Analysis, George Mason University

NEAR-TERM OUTLOOK

While the current performance of the Fairfax County economy is exhibiting signs of renewed growth based on continuing strong job gains and more balanced consumer, business and government spending patterns, the Leading Index has retreated for two consecutive months and is now down for the year.

The Leading Index is designed to point to the future but it has been unusually sensitive to consumer (and business) expectations. During the summer's slowdown in the economy across the nation, in reaction to higher interest rates and sharp energy price gains, consumers cut back on automobile purchases and businesses cut back on any excesses. With strong hiring in the year's first half, some labor force adjustments resulted, especially in the weaker sectors. As a result, initial claims for unemployment insurance increased (worsened) slightly in October even while other businesses were expanding and job growth was strong. These tem-

porary conditions should be resolved in November and December with the Leading Index turning up and resuming its expansionary track into 2006.

2005 will go down as the best year (along with 2004) of the decade in terms of Fairfax County's growth of income and employment. With the business cycle aging and the expansion maturing, slower future growth should be expected. The early signs of the economy's deceleration (slower growth) will be the softening of the housing market and resulting slower price escalation. Job growth will also slow from its torrid pace of the last two years. Consumer spending should continue to grow but with rising interest rates, growing consumer debt, and continuing high energy costs, its gains will be driven by household growth (more consumers) and increases in wages. Home mortgage refinancing will no longer fuel consumer spending as it has over the past three years. Still, the forecast for 2006 is for a solid performance for both Fairfax County and the Washington metropolitan area followed by further but moderate slowing in 2007.

Fairfax County, Virginia Economic Indicators Current and Previous Months

Economic Indicator	Estimates			Percent Change	
	Oct-05 Prelim.	Sep-05 Final	Oct-04 Final	Sep-05 to Oct-05	Oct-04 to Oct-05
Fairfax County Business Cycle Indicators					
Coincident Index (1987 = 100)	134.07	132.41	131.68	1.25	1.82
Leading Index (1987 = 100)	107.28	107.29	107.46	-0.01	-0.16
Fairfax County Coincident Index Components					
Estimated Total Wage & Salary Employment (Seasonally Adjusted)	619,455	614,115	597,356	0.87	3.70
<i>Estimated Total Wage & Salary Employment (Unadjusted)</i>	<i>619,430</i>	<i>614,778</i>	<i>597,332</i>	<i>0.76</i>	<i>3.70</i>
Transient Occupancy Tax (\$'000='87, Smoothed, Seasonally Adjusted)	778	755	814	3.00	-4.41
<i>Transient Occupancy Tax (\$'000=Current, Smoothed Only)</i>	<i>1,400</i>	<i>1,467</i>	<i>1,401</i>	<i>-4.56</i>	<i>-0.04</i>
Sales Tax Receipts (\$'000='87, Seasonally Adjusted)	9,027	8,997	9,805	0.33	-7.93
<i>Sales Tax Receipts (\$'000=Current, Unadjusted)</i>	<i>11,739</i>	<i>12,861</i>	<i>11,816</i>	<i>-8.72</i>	<i>-0.65</i>
South Atlantic Consumer Confidence	138.5	139.5	120.4	-0.72	15.03
Fairfax County Leading Index Components					
New Automobile Registrations (Seasonally Adjusted)	5,550	5,588	5,864	-0.68	-5.35
<i>Automobile Registrations (Unadjusted)</i>	<i>5,341</i>	<i>6,355</i>	<i>5,643</i>	<i>-15.96</i>	<i>-5.35</i>
Initial Unemployment Claims (Seasonally Adjusted)	900	864	1,115	4.26	-19.22
<i>Initial Unemployment Claims (Unadjusted)</i>	<i>828</i>	<i>723</i>	<i>1,025</i>	<i>14.52</i>	<i>-19.22</i>
South Atlantic Consumer Expectations (Unadjusted)	85.5	83.7	108.7	2.15	-21.34
Fairfax County Labor Force					
Total Labor Force (Seasonally Adjusted)	603,882	599,441	588,679	0.74	2.58
<i>Total Labor Force (Unadjusted)</i>	<i>598,741</i>	<i>595,118</i>	<i>583,667</i>	<i>0.61</i>	<i>2.58</i>
Employed Labor Force (Seasonally Adjusted)	590,021	585,493	577,696	0.77	2.13
<i>Employed Labor Force (Unadjusted)</i>	<i>584,792</i>	<i>579,997</i>	<i>572,576</i>	<i>0.83</i>	<i>2.13</i>
Unemployed Labor Force (Seasonally Adjusted)	13,861	13,948	10,983	-0.62	26.21
<i>Unemployed Labor Force (Unadjusted)</i>	<i>13,949</i>	<i>15,121</i>	<i>11,091</i>	<i>-7.75</i>	<i>25.77</i>
Unemployment Rate (Percent, Seasonally Adjusted)	2.30	2.33	1.87	--	--
<i>Unemployment Rate (Percent, Unadjusted)</i>	<i>2.33</i>	<i>2.54</i>	<i>1.90</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.

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)