

Fairfax County Economic Index

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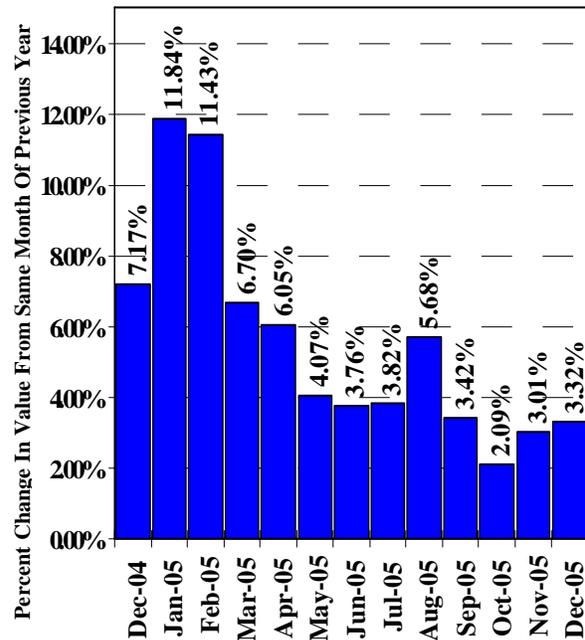
February 2006

The County's Economic Outlook Remains Good In Spite of a Weak Performance In December

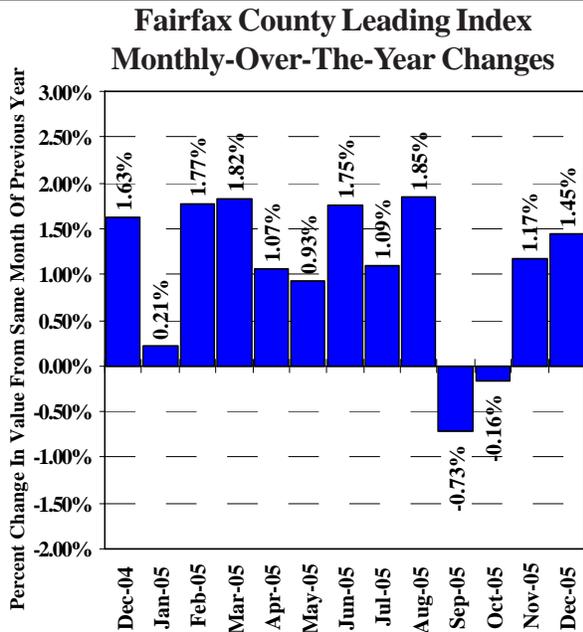
The **Fairfax County Coincident Index**, which represents the current state of the County's economy, decreased to 132.16 in December for a loss of 0.86 percent. However, compared to December 2004, the Coincident Index was up 3.32 percent. This monthly over-the-year increase extends the Index's positive trend to a twenty-fifth consecutive month. In November two of the Index's four indicators were negative.

- Transient occupancy tax collections, adjusted for inflation and seasonal variation, was down for the fourth time in five months; and,
- Total employment declined for a second month; while,
- Consumer confidence (in the present) was up for a second month; and,
- Sales tax revenues, adjusted for inflation and seasonal variation, 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



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, increased to 109.49 in December for a gain of 0.85 percent. With this increase, the Index has been positive on a monthly over-the-year basis for thirty-one of the last thirty-three months. In December, an unusually large gain in one of the Index's three indicators more than off-set small decreases in the other two indicators.

- Automobile registrations rose sharply in December after declining for three months; while,
- Initial claims for unemployment insurance increased (worsened) slightly following their sharp decline in November; and,
- Consumer expectations (consumer confidence six months hence) decreased marginally following their large gain in November.

The Fairfax County economy cooled further in December extending its slowdown from November to a second month. This slowdown was reflected in slower employment growth and a fall off in tourism spending (even adjusted for seasonal variation). Still, the outlook remains good with the Leading Index increasing for a second month. Compared to a year ago, both indices were higher and pointing to

the County's economic expansion continuing on through the year although at a marginally decelerating growth rate.

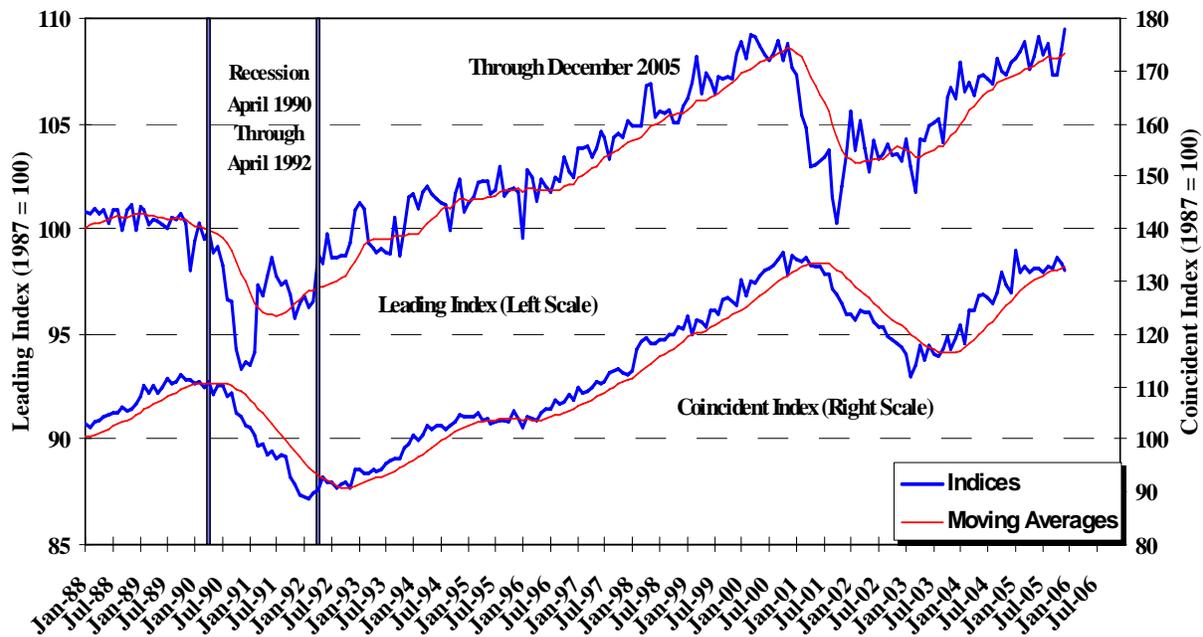
CURRENT CONDITIONS

Job growth in the County slowed to 3.4 percent in December with the addition of an estimated 20,330 net new jobs (December to December). While this gain accounted for one-quarter of the metropolitan area's job increase, it was smaller than previous months and the year's estimated average job gain of 24,070 net new jobs and its 4.1 percent annual growth rate. Job growth is projected to pick up during the first quarter of 2006 with a total of 22,500 jobs being added to the County's employment base for the full year. This slightly slower growth pattern projected for 2006 is expected to continue into 2007 and is consistent with forecasts for the Washington area and for the nation. Following the business cycle's peak in 2004, a slow deceleration in job growth going forward is anticipated for the nation, region and County. Still, the projected local gains remain above Fairfax County's long-term average job increase and should be viewed positively.

Consumer spending has been volatile over the past year following the ups and downs of consumers confidence and energy prices. As consumer spending fuels approximately two-thirds of the gross county product (government spending and business investment account for the remaining one-third) it becomes an important predictor of the economy's health. Retail spending accounts for an important part of consumer spending. Retail sales in Fairfax County have increased on a month-to-month basis six of the last twelve months and have decreased slightly (-0.11%) in value adjusted for inflation and seasonality over the year. Auto sales are also down slightly (-0.30%) for the year.

Consumers have not been spending up to their potential in Fairfax County. With jobs, population and personal income all growing, consumer spending should have increased, too. Even though consumer confidence moved higher towards the end of 2005 it retreated slightly in January. Consumers will have to move back into the economy in greater force if the current expansion is going to be sustained over the long run.

Business Cycle Indicators -- Fairfax County, Virginia



Source: Center for Regional Analysis, George Mason University

NEAR-TERM OUTLOOK

The Leading Index increased over the year pointing to the continuation of the expansion through at least the third quarter of 2006. Its December value established a new record high surpassing its old record of March 2000. And, the twelve-month moving average trend line is only two tenths of a point below the record peak value. As the Index closely parallels the future track of the County's economy, its positive trend over 2005 forecasts further expansion in 2006 with this trend likely to extend into 2007.

Even as the economy's strong growth that was achieved in 2004 and 2005 begins to decelerate, shortages and rising costs are threatening to undercut the projected future gains. Labor shortages are wide spread with vacancies reducing output and earnings. Wage inflation is also threatening. Unemployment in Fairfax County fell to 2.1 percent on an unadjusted seasonal basis. Shortages of resident workers are the making County's economy more dependent on non-resident workers (commuters). This

dependency has cost and congestion implications and raises labor availability and quality concerns. In order for the County's economy to realize its income and employment potentials this year and next, overcoming the looming shortage of workers will become critical.

Even as the County's economy cools down in 2006, the forecast for the economy remains well above that for the nation and Washington metropolitan area. With national GDP growth projected at 3.3 percent and the Washington area economy expected to grow 4.0 percent, the County's gross county product (the value of goods and services produced) is projected to increase 4.25 percent. This expected growth rate represents a substantial slowdown from 5.2 percent for 2005 reflecting the realities of the business cycle, continuing high energy costs, rising interest rates and labor costs, and slower consumer spending. Still, in spite of increasing costs, the expected growth in 2006 is good and will support healthy job and income growth.

Fairfax County, Virginia Economic Indicators Current and Previous Months

Economic Indicator	Estimates			Percent Change	
	Dec-05 Prelim.	Nov-05 Final	Dec-04 Final	Nov-05 to Dec-05	Dec-04 to Dec-05
Fairfax County Business Cycle Indicators					
Coincident Index (1987 = 100)	132.16	133.30	127.91	-0.86	3.32
Leading Index (1987 = 100)	109.49	108.56	107.93	0.85	1.45
Fairfax County Coincident Index Components					
Estimated Total Wage & Salary Employment (Seasonally Adjusted)	614,586	618,242	594,255	-0.59	3.42
<i>Estimated Total Wage & Salary Employment (Unadjusted)</i>	624,075	622,458	603,430	0.26	3.42
Transient Occupancy Tax (\$'000='87, Smoothed, Seasonally Adjusted)	760	764	693	-0.58	9.69
<i>Transient Occupancy Tax (\$'000=Current, Smoothed Only)</i>	1,492	1,473	1,329	1.33	12.28
Sales Tax Receipts (\$'000='87, Seasonally Adjusted)	9,066	8,923	9,077	1.60	-0.11
<i>Sales Tax Receipts (\$'000=Current, Unadjusted)</i>	17,129	12,058	16,809	42.05	1.90
South Atlantic Consumer Confidence	144.1	142.3	136.0	1.26	5.96
Fairfax County Leading Index Components					
New Automobile Registrations (Seasonally Adjusted)	6,804	4,744	6,824	43.41	-0.30
<i>Automobile Registrations (Unadjusted)</i>	5,926	4,219	5,944	40.46	-0.30
Initial Unemployment Claims (Seasonally Adjusted)	812	790	1,111	2.82	-26.87
<i>Initial Unemployment Claims (Unadjusted)</i>	792	711	1,083	11.39	-26.87
South Atlantic Consumer Expectations (Unadjusted)	103.0	104.6	107.0	-1.53	-3.74
Fairfax County Labor Force					
Total Labor Force (Seasonally Adjusted)	600,479	602,710	589,278	-0.37	1.90
<i>Total Labor Force (Unadjusted)</i>	596,720	598,648	585,589	-0.32	1.90
Employed Labor Force (Seasonally Adjusted)	586,543	587,576	575,589	-0.18	1.90
<i>Employed Labor Force (Unadjusted)</i>	584,042	584,225	573,135	-0.03	1.90
Unemployed Labor Force (Seasonally Adjusted)	13,937	15,135	13,689	-7.92	1.81
<i>Unemployed Labor Force (Unadjusted)</i>	12,678	14,423	12,454	-12.10	1.80
Unemployment Rate (Percent, Seasonally Adjusted)	2.32	2.51	2.32	--	--
<i>Unemployment Rate (Percent, Unadjusted)</i>	2.12	2.41	2.13	--	--

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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