

Fairfax County Economic Index

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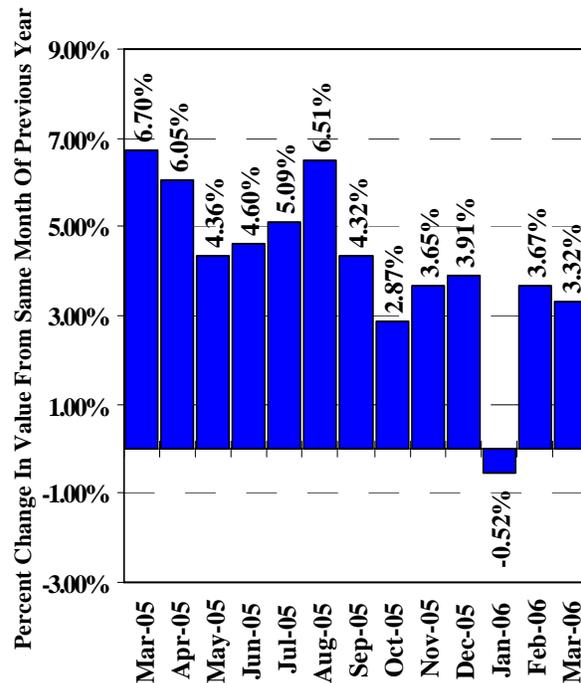
May 2006

The Fairfax County Economy Grew in March And Its Outlook for 2006 Remains Strong

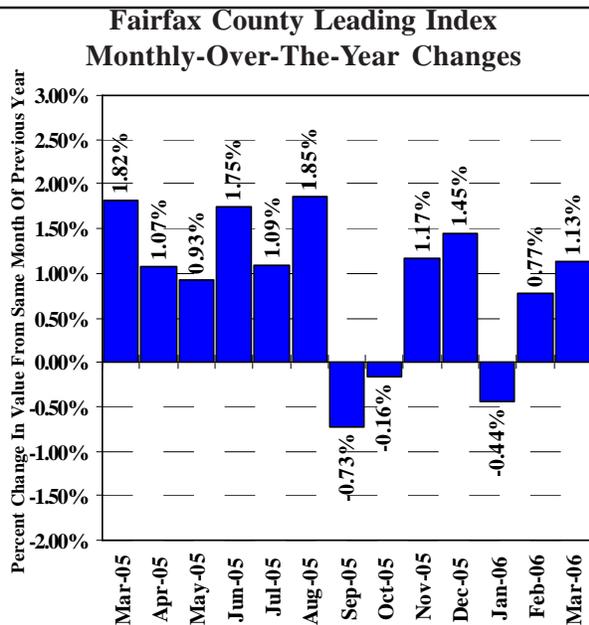
The **Fairfax County Coincident Index**, which represents the current state of the County's economy, increased to 137.06 in March for a gain of 0.25 percent. On a monthly over-the-year basis, the Coincident Index was up 3.3 percent extending February's gain to a second month. The Index has increased monthly over-the-year in twenty-seven of the past twenty-eight months (January 2006 was the sole negative month). In March, two of the Index's four indicators were positive.

- Consumer confidence (in the present) was up for a fifth month; and,
- Sales tax revenues, adjusted for inflation and seasonal variation, increased sharply after declining in February; while,
- Total employment decreased following two monthly gains; and,
- Transient occupancy tax collections, adjusted for inflation and seasonal variation, declined for the fourth time in five 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 110.13 in March for a gain of 0.79 percent. On a monthly over-the-year basis, the Index has been up in four of the previous five months following declines in September and October in 2005. Prior to September 2005, the Leading Index had registered 29 consecutive monthly over-the-year increases. In March, two of the Index's three component indicators contributed to its gain.

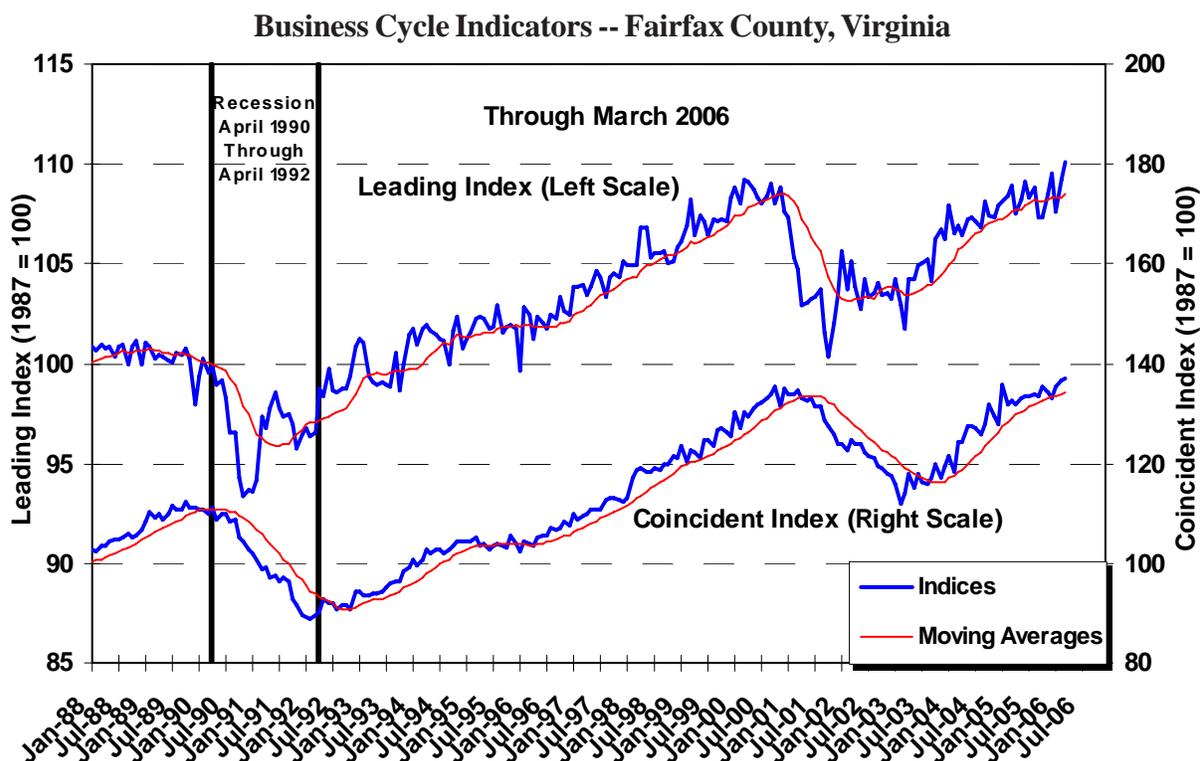
- Automobile registrations increased in March and have posted a third strong monthly gain over the past four months; and,
- Initial claims for unemployment insurance decreased (improved) for a second month following two monthly of increases and are 14.8 percent below the same month of 2005; while,
- Consumer expectations (consumer confidence six months hence) decreased for the third time in four months.

Both the Leading and Coincident Indices established new monthly peak values in March indicating that the County's economy continues to enjoy a strong expansion that has now extended into a fourth

year. While job growth slowed temporarily, consumer spending has increased. However, with rising energy costs undermining consumer confidence and diverting disposable income, consumer spending can be expected to slow during the second quarter. With job growth expected to accelerate during the same period, it is likely that the County's economy will continue on its current growth path at least into the third quarter before slowing down. The economy's performance in March did not reveal any significant deviation from the previous trends.

CURRENT CONDITIONS

The Coincident Index attained a new record value in March attesting to the County's continuing economic expansion. With the exception of a one-month decrease in January, the Index has grown for 13 consecutive quarters and has maintained a relatively steady growth rate over the last year. This continuing gain has been built on a combination of strong job growth and consumer spending. However, this expansion is now in its middle stage and either or both of these past economic drivers is likely to slow. In March, it was job growth and while still running at an annual rate of 3.4 percent (20,500 jobs), which by most measures is strong, this represents a moderation of the previous trend for Fairfax County. At this stage of the business cycle, there are several possible explanations for this slowdown: employers are holding back on hiring to see how rising energy costs will impact revenues and profits, the shortage of qualified workers and a persistently low unemployment rate are slowing the hiring process; that is, there are a growing number of unfilled jobs. With unemployment down to 2.3 percent from last year's 2.5 percent rate and initial claims for unemployment insurance down 14.8 percent from March 2005, labor market conditions are tight and getting tighter. The inability to fill available jobs is resulting in lost work and income as well as wage inflation. These unfavorable labor market conditions are common at this stage of the expansion and will eventually lead to its deceleration. This spring's hiring slowdown may also be mirroring last year's that began in April and extended several months in response to rising energy prices.



Source: Center for Regional Analysis, George Mason University

Consumer spending, on the other hand, was strong in March. Retail sales were up sharply and automobile sales have recorded two strong months and are running 13.5 percent ahead of last year. This strong spending trend points to continuing household income growth and to consumers' confidence in the health of the current economy: consumer confidence in the present has increased for five consecutive months. However, consumers are not as confident about the future; expectations have declined in three of the last four months. This longer term less optimistic outlook suggests that consumer spending may weaken in coming months and along with slower job growth could represent the beginning of the projected gradual slowing of the County's economic growth rate during the second half of the year.

NEAR-TERM OUTLOOK

The Leading Index continues to point to the County's economic growth extending at least to year's end albeit at a decelerating rate. After hesi-

tating in September and October of 2005, the Leading Index resumed its upward trend setting a new record level in March. The key to the Index's further growth will be the re-acceleration of job growth and the maintenance of current consumer spending levels.

Job growth is expected to pick up in the second quarter in response to the federal procurement contracting cycle before slowing over the summer months. However, consumer-spending trends are threatened by continuing high gasoline prices that may divert disposable income from local retail purchases. Also, inflationary price increases are running ahead of income growth and may also cut into consumer spending. Additionally, the slowing housing market may negatively impact the local economy. These threats, not the least of which is the shortage of qualified labor resources, are sufficiently real that slower economic growth over the year's second half now seems assured as was projected at the beginning of the year.

Fairfax County, Virginia Economic Indicators Current and Previous Months

Economic Indicator	Estimates			Percent Change	
	Mar-06 Prelim.	Feb-06 Final	Mar-05 Final	Feb-06 to Mar-06	Mar-05 to Mar-06
Fairfax County Business Cycle Indicators					
Coincident Index (1987 = 100)	137.06	136.73	132.66	0.25	3.32
Leading Index (1987 = 100)	110.13	109.27	108.90	0.79	1.13
Fairfax County Coincident Index Components					
Estimated Total Wage & Salary Employment (Seasonally Adjusted)	629,256	629,593	608,748	-0.05	3.37
<i>Estimated Total Wage & Salary Employment (Unadjusted)</i>	624,310	621,282	603,964	0.49	3.37
Transient Occupancy Tax (\$'000='87, Smoothed, Seasonally Adjusted)	773	817	723	-5.41	6.91
<i>Transient Occupancy Tax (\$'000=Current, Smoothed Only)</i>	1,509	1,520	1,368	-0.78	10.31
Sales Tax Receipts (\$'000='87, Seasonally Adjusted)	10,032	8,094	9,706	23.95	3.36
<i>Sales Tax Receipts (\$'000=Current, Unadjusted)</i>	12,979	10,950	12,304	18.53	5.49
South Atlantic Consumer Confidence	154.8	152.0	142.6	1.84	8.56
Fairfax County Leading Index Components					
New Automobile Registrations (Seasonally Adjusted)	7,228	5,697	6,367	26.87	13.52
<i>Automobile Registrations (Unadjusted)</i>	7,345	4,571	6,470	60.69	13.52
Initial Unemployment Claims (Seasonally Adjusted)	736	798	863	-7.84	-14.80
<i>Initial Unemployment Claims (Unadjusted)</i>	806	865	946	-6.82	-14.80
South Atlantic Consumer Expectations (Unadjusted)	101.6	105.5	107.9	-3.70	-5.84
Fairfax County Labor Force					
Total Labor Force (Seasonally Adjusted)	599,866	597,730	584,053	0.36	2.71
<i>Total Labor Force (Unadjusted)</i>	596,891	592,297	581,156	0.78	2.71
Employed Labor Force (Seasonally Adjusted)	585,793	584,059	569,438	0.30	2.87
<i>Employed Labor Force (Unadjusted)</i>	583,595	578,910	567,302	0.81	2.87
Unemployed Labor Force (Seasonally Adjusted)	14,074	13,672	14,615	2.94	-3.70
<i>Unemployed Labor Force (Unadjusted)</i>	13,296	13,387	13,854	-0.68	-4.03
Unemployment Rate (Percent, Seasonally Adjusted)	2.3%	2.3%	2.5%	--	--
<i>Unemployment Rate (Percent, Unadjusted)</i>	2.2%	2.3%	2.4%	--	--

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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