

Fairfax County Economic Index

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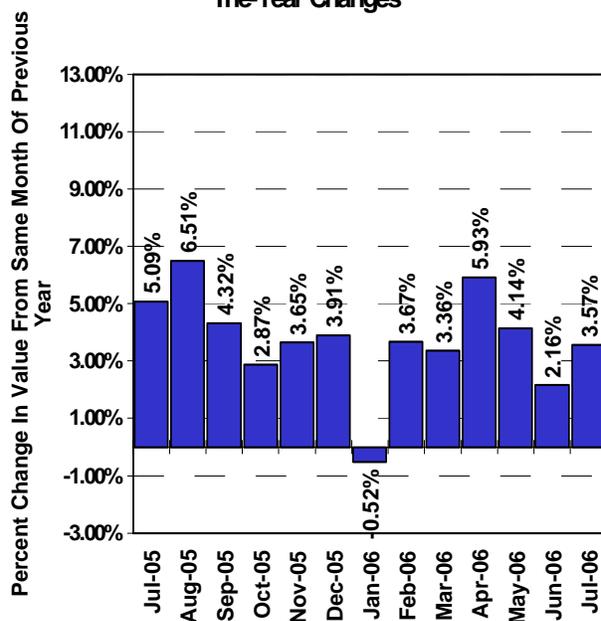
September 2006

County's Economy Rebounds in July After Slowing in May and June

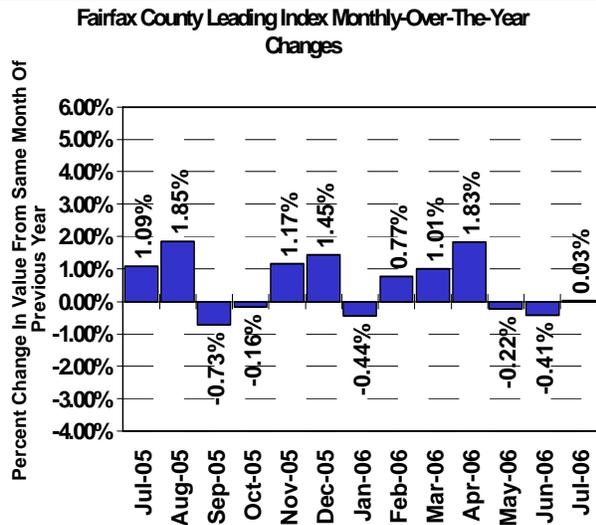
The Fairfax County Coincident Index, which represents the current state of the County's economy, increased to 138.15 in July for a gain of 1.35 percent after losing 1.48 and 0.96 percent respectively in June and May. On a monthly over-the-year basis, the Coincident Index continued to track higher gaining 3.57 percent from July of 2005, extending its monthly over-the-year gain to a sixth consecutive month. Over the full expansion, the Index has increased in thirty-one of the past thirty-two months (January 2006 was the sole negative month). In July, two of the Index's four indicators were positive.

- Transient occupancy tax collections, adjusted for inflation and seasonal variation, were up sharply after decreasing for two months; and,
- Consumer confidence (in the present) rebounded following decreases in May and June; while,
- Sales tax revenues, adjusted for inflation and seasonal variation, decreased for the fourth time in six months; and,
- Total employment was down on a month-to-month basis for the third month in a row.

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 to 108.33 in July for a loss of 0.35 percent. This is the Index's third monthly decline over the past four months. On a monthly over-the-year basis, the Index was marginally higher (0.03%) than its same-month value in 2005. Since turning positive 39 months ago, the Leading Index has been up in 35 months and down in five (January, May and June in 2006, September and October in 2005). In July, a strong gain in one of the Index's three indicators was responsible for its month-to-month increase.

- Consumer expectations (consumer confidence six months hence) increased after declining for two months; while,
- Automobile registrations dropped sharply in July after a one-month increase in June; and,
- Initial claims for unemployment insurance increase (worsened) on a seasonally adjusted basis for the third time in four months.

Fairfax County's economy bounced back slightly in July following its slowdown in May and June. However, the trend towards slower growth that emerged in the second quarter is likely to continue for the remainder of the year and into 2007. Gains in July were driven by growth in the hospital-ity sector and a gain in consumer confidence that had lagged in May and June as energy costs rose

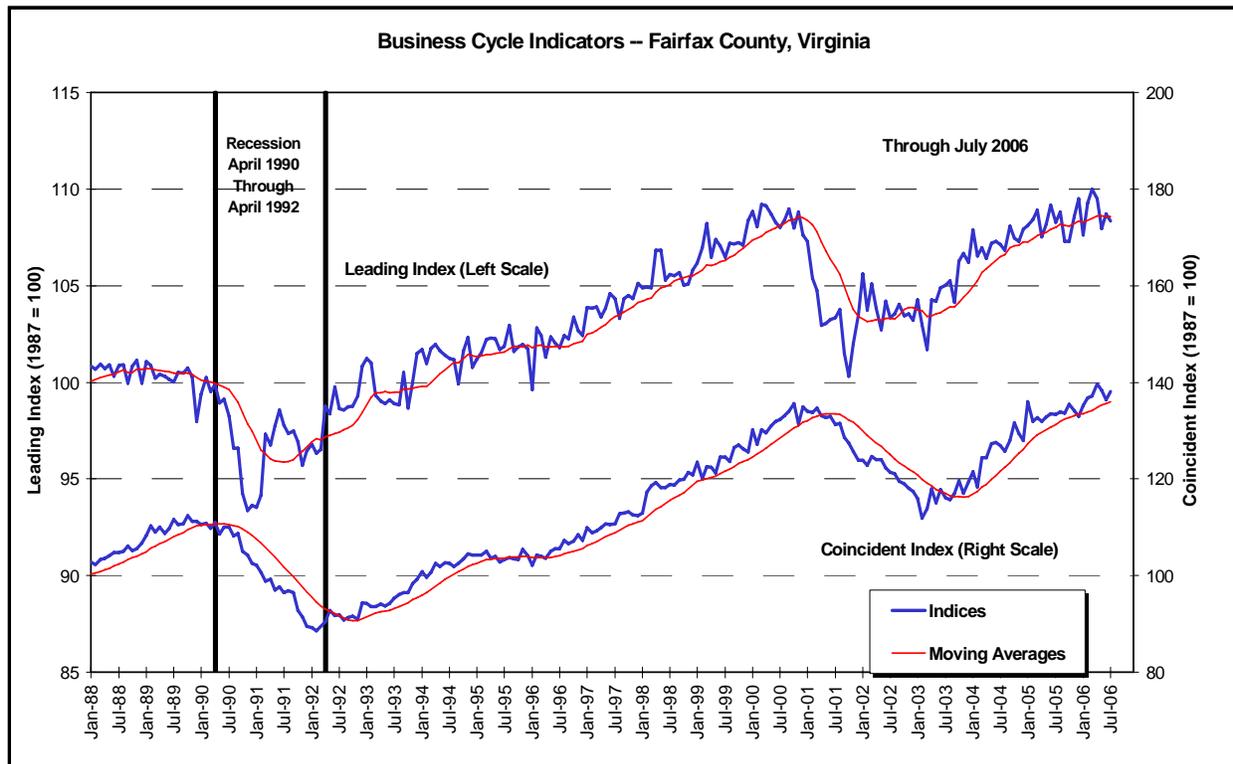
and economic uncertainties weighed on consumers. Still, consumer spending continued to exhibit weakness as seen in lower housing, automobile and retail sales.

The Leading Index has flattened out after sustaining a three-year upward trend. This mid-cycle pause is not uncommon and suggests a transition is underway from the acceleration phase to a maturing economy that will continue to expand but at a slower rate. Furthermore, the rapid ramp up in federal spending following the September 11, 2001 terrorist attack subsided in 2005 and with this slowdown in the growth of federal spending the stimulus that had propelled the economy's past growth will not be as stimulative in the future.

CURRENT CONDITIONS

The County's economy is growing at a slower rate than it has over the past three years. This moderation can be attributed to the fundamentals underlining the business cycle and the slowdown in federal procurement spending. The business cycle has entered its middle life phase. Consumer spending that had driven the economy's growth over the past three years has slowed as consumers' debt burdens rose and interest rates increased. This trend was compounded by a rapid run up in energy prices in the spring and a decline in consumer confidence. As consumer spending slowed and energy prices increased, the business sector reacted by slowing hiring. Slower growth of federal procurement spending has reinforced this trend towards slower economic growth.

Consumer spending and job growth have been the principal measures of the economy's expansion. Recently, consumers have become more cautious in their spending as uncertainty increased. Retail spending in the County fell in July after growing in June and it was also lower than in July 2005. Automobile sales have suffered all year, dropping 24 percent from June to July and down 10.5 percent from July 2005. The volume of housing sales has been slowing since last year and dropping an average of approximately 40 percent in Northern Virginia in July with the average sales prices of houses sold in July down from June for the first month-to-



Source: Center for Regional Analysis, George Mason University

month decline in nine years. Consumer confidence has lagged in recent months although in July it recovered some of its losses. Consumer expectations (confidence in the future) has been trending lower all year although it rebounded in July.

The County's economy is continuing to generate new jobs but not as fast as in 2005. Month-to-month job growth has slowed each of the last three months although it continues to be positive on a monthly over-the-year basis. For the year ending in July, the economy generated 18,900 net new jobs for a gain of 3.1 percent. While the County's share of job growth at the metropolitan level was 25.7 percent, well ahead of its share of the region's population, its role as the region's dominant suburban economy has diminished slightly in recent months. This slowdown in job growth can be attributed to the 2005 slowdown in federal spending. As businesses located in Fairfax County have captured a growing share of the region's federal procurement awards (30% in 2004 and 2005), the County's economy has become more sensitive to funding level changes.

NEAR-TERM OUTLOOK

The Leading Index is pointing to slower future economic growth. This trend reflects the national and global forces that will dampen growth over the next year: higher interest rates, slower consumer spending and higher debt burdens, and slower residential and business investment outlays. Locally, the economy will reflect this slowing trend but will continue to outperform the national economy. The slowdown in federal procurement spending in 2005 has cost the region and Fairfax County some job growth. Where possibly as much as half of last years job growth could be attributed to the large 2004 increase in federal procurement spending in the County's economy, smaller procurement spending gains in 2005 have contributed to slower job growth this year.

The economy continues to expand. But with unemployment holding at 2.1 percent, even the current levels of job growth may be difficult to sustain due to the shortage of qualified labor resources and the rising costs of operations in the region.

Fairfax County, Virginia Economic Indicators Current and Previous Months

Economic Indicator	Estimates			Percent Change	
	Jul-06 Prelim.	Jun-06 Final	Jul-05 Final	Jun-06 to Jul-06	Jul-05 to Jul-06
Fairfax County Business Cycle Indicators					
Coincident Index (1987 = 100)	138.15	136.32	133.39	1.35	3.57
Leading Index (1987 = 100)	108.33	108.72	108.30	-0.35	0.03
Fairfax County Coincident Index Components					
Estimated Total Wage & Salary Employment (Seasonally Adjusted)	630,526	631,341	611,612	-0.13	3.09
<i>Estimated Total Wage & Salary Employment (Unadjusted)</i>	<i>634,070</i>	<i>638,823</i>	<i>615,049</i>	<i>-0.74</i>	<i>3.09</i>
Transient Occupancy Tax (\$'000='87, Smoothed, Seasonally Adjusted)	882	804	787	9.60	12.06
<i>Transient Occupancy Tax (\$'000=Current, Smoothed Only)</i>	<i>1,560</i>	<i>1,557</i>	<i>1,330</i>	<i>0.18</i>	<i>17.29</i>
Sales Tax Receipts (\$'000='87, Seasonally Adjusted)	8,807	9,197	9,590	-4.24	-8.16
<i>Sales Tax Receipts (\$'000=Current, Unadjusted)</i>	<i>12,392</i>	<i>14,035</i>	<i>12,733</i>	<i>-11.71</i>	<i>-2.68</i>
South Atlantic Consumer Confidence	159.4	146.6	137.0	8.73	16.35
Fairfax County Leading Index Components					
New Automobile Registrations (Seasonally Adjusted)	4,827	6,349	5,393	-23.97	-10.50
<i>Automobile Registrations (Unadjusted)</i>	<i>5,488</i>	<i>7,151</i>	<i>6,132</i>	<i>-23.26</i>	<i>-10.50</i>
Initial Unemployment Claims (Seasonally Adjusted)	933	879	794	6.14	17.51
<i>Initial Unemployment Claims (Unadjusted)</i>	<i>933</i>	<i>834</i>	<i>794</i>	<i>11.87</i>	<i>17.51</i>
South Atlantic Consumer Expectations (Unadjusted)	104.2	93.9	97.2	10.97	7.20
Fairfax County Labor Force					
Total Labor Force (Seasonally Adjusted)	597,540	599,687	585,856	-0.36	1.99
<i>Total Labor Force (Unadjusted)</i>	<i>613,689</i>	<i>608,947</i>	<i>601,689</i>	<i>0.78</i>	<i>1.99</i>
Employed Labor Force (Seasonally Adjusted)	585,144	586,843	573,187	-0.29	2.09
<i>Employed Labor Force (Unadjusted)</i>	<i>598,777</i>	<i>593,742</i>	<i>586,541</i>	<i>0.85</i>	<i>2.09</i>
Unemployed Labor Force (Seasonally Adjusted)	12,396	12,844	12,669	-3.49	-2.16
<i>Unemployed Labor Force (Unadjusted)</i>	<i>14,912</i>	<i>15,205</i>	<i>15,148</i>	<i>-1.93</i>	<i>-1.56</i>
Unemployment Rate (Percent, Seasonally Adjusted)	2.1%	2.1%	2.2%	--	--
<i>Unemployment Rate (Percent, Unadjusted)</i>	<i>2.4%</i>	<i>2.5%</i>	<i>2.5%</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 val 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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