

# Fairfax County Economic Index

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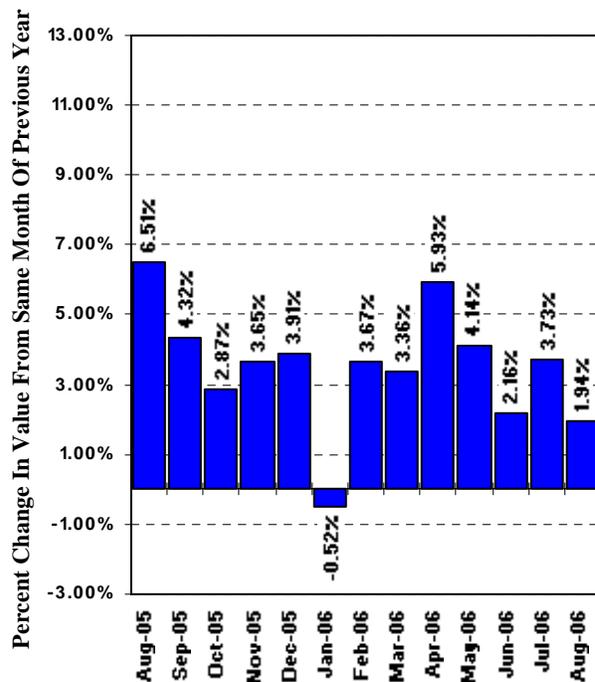
OCTOBER 2006

## County's Economy Slows in August For Third Time in Four Months

The **Fairfax County Coincident Index**, which represents the current state of the County's economy, decreased to 136.46 in August for a decline of 1.37 percent. This was the third time in the past four months that the Index was negative. Still, on a monthly over-the-year basis, the Coincident Index continued to track higher gaining 1.94 percent from August of 2005, extending its monthly over-the-year gain to a seventh consecutive month. Over the full expansion, the Index has increased in thirty-two of the past thirty-three months (January 2006 was the sole negative month). In August, two of the Index's four indicators were negative.

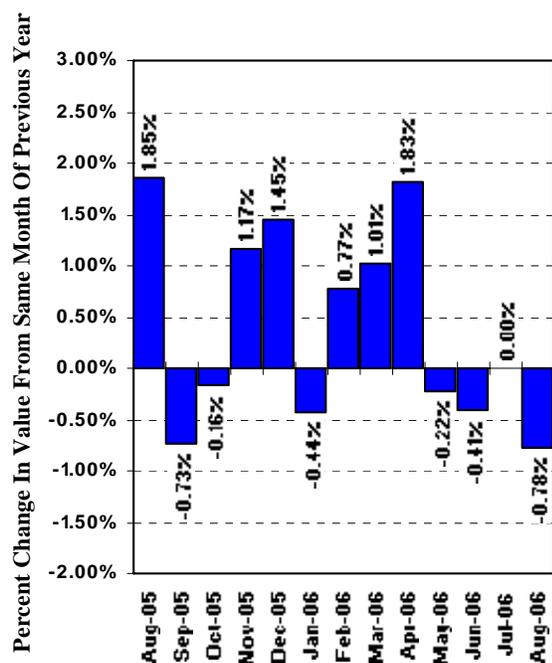
- Consumer confidence (in the present) fell sharply in August after being higher in July; and,
- Transient occupancy tax collections, adjusted for inflation and seasonal variation, decreased for the third time in four months; while,
- Sales tax revenues, adjusted for inflation and seasonal variation, increased for the second time in three months; and,
- Total employment grew on a month-to-month basis following its third monthly decline.

**Fairfax County Coincident Index Monthly Over-The-Year Changes**



Source: Center for Regional Analysis, George Mason University

### Fairfax County Leading Index Monthly Over-The-Year Changes



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 107.96 in August for a loss of 0.32 percent. This is the Index's fourth monthly decline over the past five months. On a monthly over-the-year basis, the Index was down 0.78 percent from its same-month value in 2005. Since turning positive 39 months ago, the Leading Index has been up in 35 months and down in six (September and October in 2005 and January, May, June and August in 2006). In August, two of the Index's three components contributed to its decline.

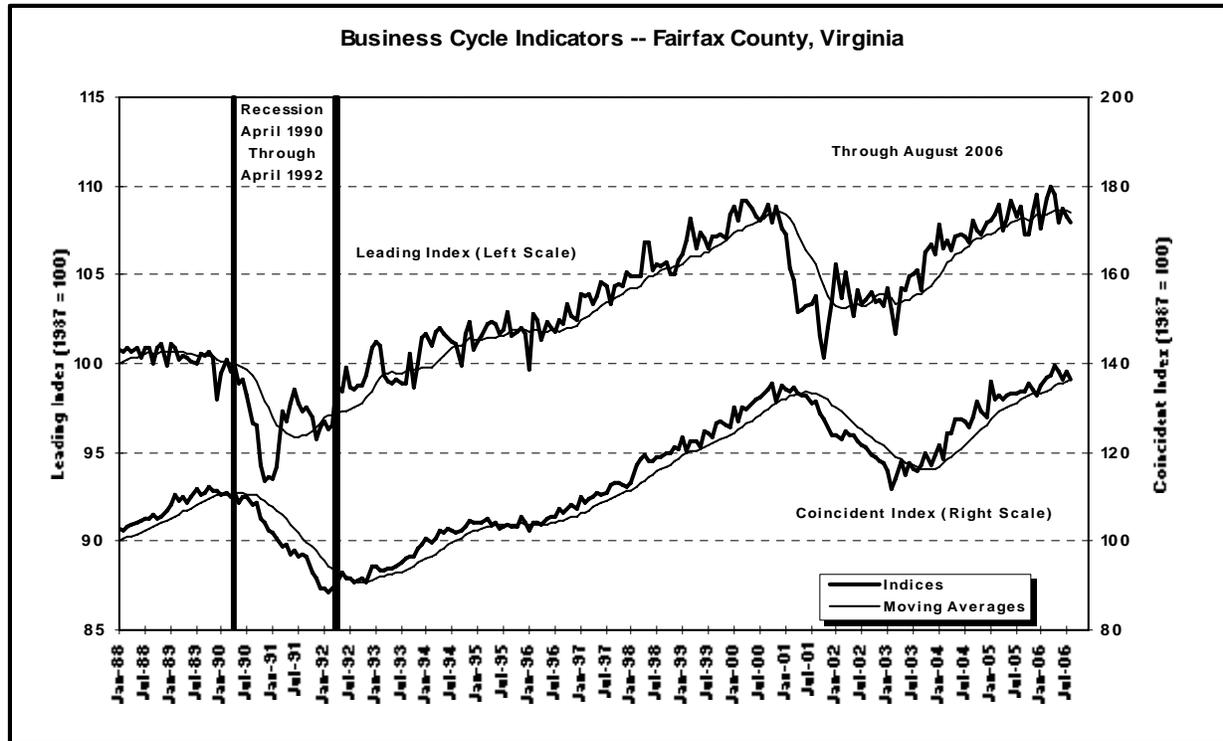
- Consumer expectations (consumer confidence six months hence) experienced a sharp decline following a one-month gain in July and now has been negative in three of the last four months; and,
- Initial claims for unemployment insurance increased (worsened) on a seasonally adjusted basis for the fourth time in five months.
- Automobile registrations rebounded from their decline in July.

The growth of the Fairfax County economy has slowed over the past four months from its strong acceleration sustained over the previous three years. This slowdown was precipitated by the rapid run up in energy prices as reflected in the price of gasoline that impacted consumer spending and resulted in a slowdown in business outlays. The corresponding decrease in consumer confidence during this period was further deepened by the growing weakness in the housing market.

These same negative conditions are reflected in the performance of the Leading Index that has not experienced any month-to-month increase since April. Fortunately, the conditions that have dampened the County's expansion are short-term and do not reflect fundamental weaknesses. Consequently, even though the economy's performance has been weaker over the year's middle four months, this slower performance is not likely to continue in the face of the 25 percent gasoline price decrease in September plus other confidence builders that should re-ignite the economy's

## CURRENT CONDITIONS

The Fairfax County economy has experienced a broad-based slowing of its expansion during the May-August period yet its Coincident Index continues to exceed same-month values from 2005. The principal measures of the economy's long-term strength are jobs and consumer spending. While job growth slowed slightly over the past three months, it picked up in August with the addition of 20,764 net new jobs (August to August) accounting for 28 percent of the Washington metropolitan area job gain. Other labor market conditions were mixed in August. On a seasonally adjusted basis, unemployment rose to 2.3 percent from 2.1 percent in July but was well below its 2005 August rate (2.7 percent). Initial claims for unemployment insurance increased from July and were higher (worse) than in August of 2005. This increase in initial claims reflects businesses redeploying their workers to achieve cost savings in the light of higher operating costs driven by higher energy costs. Still, the labor market remains tight and healthy by comparison to any other local jurisdiction and the region.



Source: Center for Regional Analysis, George Mason University

Consumer spending patterns have reacted to higher gasoline prices over the summer months. Increased spending for gasoline temporarily cut into retail sales and may help to explain lower transient occupancy tax receipts in three of the last four months—tourists altered their vacation plans because of higher gasoline prices. Higher gasoline prices certainly have cut into automobile sales. These are down 15.4 percent over the past twelve months although in August they rebounded sharply in response to dealer incentives. Going forward, the County's continuing job growth means additional disposable income to support the growth of consumer spending and, with gasoline prices dropping rapidly in September and October, retail sales should accelerate going into the all-important holiday shopping season.

## **NEAR-TERM OUTLOOK**

National and regional forces are shaping the outlook for the Fairfax County economy. Nationally, the economy is expected to grow at below a 3 percent rate for the remainder of 2006 and for all of 2007. As a result, unemployment will increase and job growth will slow. The Washington area economy will feel the slowdown at the national

level but will be influenced more by changes in the magnitude of federal procurement spending. The metropolitan area's growth of federal procurement spending slowed to 2.5 percent in 2005, down from 19 percent in 2004. Contracting for all of Northern Virginia was up 5.4 percent in 2005 and in Fairfax County federal procurement spending grew 5.2 percent. This slower growth in federal spending in the County and surrounding region has contributed to the economy's slower growth this year and, if these trends extend through 2006 and into 2007, the economy's growth rate will slow further.

Still, the fundamentals remain sound. The strength of the County's economy has been tested over the past four months and it continues to grow jobs at a healthy 3.4 percent rate and supports strong consumer spending potential. Consumer anxiety has temporarily reduced spending levels below their potential. As this anxiety lessens in response to lower gasoline prices, stable interest rates, continuing economic growth, and a stabilizing housing market, consumer spending will accelerate and drive the economy to a strong year-end finish. For next year, however, the signs all point to slower growth than in 2006.

## Fairfax County, Virginia Economic Indicators Current and Previous Months

| Economic Indicator  | Estimates         |                 |                 | Percent Change         |                        |
|---|-------------------|-----------------|-----------------|------------------------|------------------------|
|   | Aug-06<br>Prelim. | Jul-06<br>Final | Aug-05<br>Final | Jul-06<br>to<br>Aug-06 | Aug-05<br>to<br>Aug-06 |
| <b>Fairfax County Business Cycle Indicators</b>                     |                   |                 |                 |                        |                        |
| Coincident Index (1987 = 100)                                       | 136.46            | 138.36          | 133.86          | -1.37                  | 1.94                   |
| Leading Index (1987 = 100)  | 107.96            | 108.31          | 108.82          | -0.32                  | -0.78                  |
| <b>Fairfax County Coincident Index Components</b>                   |                   |                 |                 |                        |                        |
| Estimated Total Wage & Salary Employment (Seasonally Adjusted)      | 635,212           | 631,122         | 614,448         | 0.65                   | 3.38                   |
| <i>Estimated Total Wage &amp; Salary Employment (Unadjusted)</i>    | <i>635,517</i>    | <i>634,669</i>  | <i>614,743</i>  | <i>0.13</i>            | <i>3.38</i>            |
| Transient Occupancy Tax (\$'000='87, Smoothed, Seasonally Adjusted) | 801               | 882             | 762             | -9.18                  | 5.12                   |
| <i>Transient Occupancy Tax (\$'000=Current, Smoothed Only)</i>      | <i>1,603</i>      | <i>1,560</i>    | <i>1,444</i>    | <i>2.78</i>            | <i>11.02</i>           |
| Sales Tax Receipts (\$'000='87, Seasonally Adjusted)                | 9,411             | 8,807           | 9,134           | 6.86                   | 3.04                   |
| <i>Sales Tax Receipts (\$'000=Current, Unadjusted)</i>              | <i>12,917</i>     | <i>12,392</i>   | <i>11,988</i>   | <i>4.24</i>            | <i>7.75</i>            |
| South Atlantic Consumer Confidence                                  | 141.0             | 160.1           | 150.9           | -11.93                 | -6.56                  |
| <b>Fairfax County Leading Index Components</b>                      |                   |                 |                 |                        |                        |
| New Automobile Registrations (Seasonally Adjusted)                  | 6,624             | 4,827           | 7,831           | 37.23                  | -15.41                 |
| <i>Automobile Registrations (Unadjusted)</i>                        | <i>7,488</i>      | <i>5,488</i>    | <i>8,852</i>    | <i>36.44</i>           | <i>-15.41</i>          |
| Initial Unemployment Claims (Seasonally Adjusted)                   | 994               | 933             | 936             | 6.59                   | 6.26                   |
| <i>Initial Unemployment Claims (Unadjusted)</i>                     | <i>917</i>        | <i>933</i>      | <i>863</i>      | <i>-1.71</i>           | <i>6.26</i>            |
| South Atlantic Consumer Expectations (Unadjusted)                   | 86.3              | 103.7           | 97.1            | -16.78                 | -11.12                 |
| <b>Fairfax County Labor Force</b>                                   |                   |                 |                 |                        |                        |
| Total Labor Force (Seasonally Adjusted)                             | 602,009           | 597,540         | 590,978         | 0.75                   | 1.87                   |
| <i>Total Labor Force (Unadjusted)</i>                               | <i>610,311</i>    | <i>613,689</i>  | <i>599,128</i>  | <i>-0.55</i>           | <i>1.87</i>            |
| Employed Labor Force (Seasonally Adjusted)                          | 588,144           | 585,144         | 575,119         | 0.51                   | 2.26                   |
| <i>Employed Labor Force (Unadjusted)</i>                            | <i>595,858</i>    | <i>598,777</i>  | <i>582,662</i>  | <i>-0.49</i>           | <i>2.26</i>            |
| Unemployed Labor Force (Seasonally Adjusted)                        | 13,865            | 12,396          | 15,859          | 11.85                  | -12.57                 |
| <i>Unemployed Labor Force (Unadjusted)</i>                          | <i>14,453</i>     | <i>14,912</i>   | <i>16,466</i>   | <i>-3.08</i>           | <i>-12.23</i>          |
| Unemployment Rate (Percent, Seasonally Adjusted)                    | 2.3%              | 2.1%            | 2.7%            | --                     | --                     |
| <i>Unemployment Rate (Percent, Unadjusted)</i>                      | <i>2.4%</i>       | <i>2.4%</i>     | <i>2.7%</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.

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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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