

Fairfax County Economic Index

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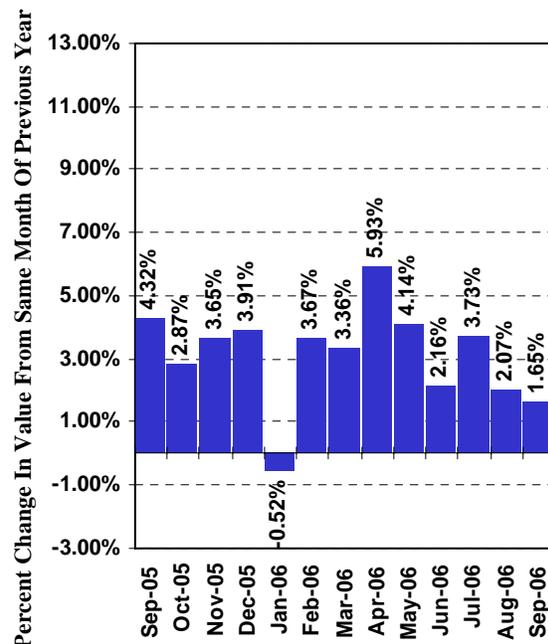
NOVEMBER 2006

County's Economy Slows in September for Fourth Time in Five Months

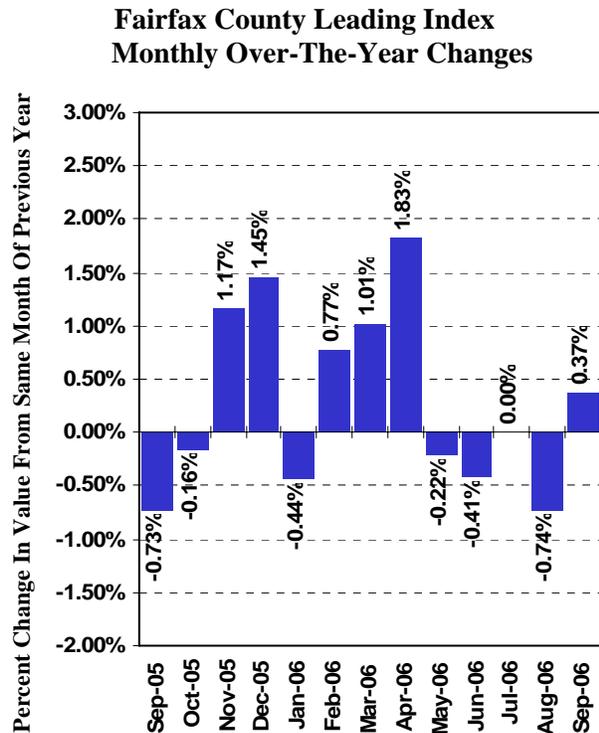
The **Fairfax County Coincident Index**, which represents the current state of the County's economy, decreased to 135.78 in September for a decline of 0.62 percent. This was the fourth time in the past five months that the Index was negative. Still, on a monthly over-the-year basis, the Coincident Index continued to track higher, gaining 1.65 percent from September of 2005, extending its monthly over-the-year gain to an eighth consecutive month. Over the full expansion, the Index has increased in thirty-three of the past thirty-four months (January 2006 was the sole negative month). In September, three of the Index's four indicators were negative.

- Consumer confidence (in the present) fell in September for the fourth time in five months;
- Transient occupancy tax collections, adjusted for inflation and seasonal variation, also decreased for the fourth time in five months; and,
- Sales tax revenues, adjusted for inflation and seasonal variation, decreased for the second time in three months; while,
- Total employment grew on a month-to-month basis for a second time following three monthly declines.

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 107.7 in September for a loss of 0.30 percent. This is the Index's fifth monthly decline over the past six months. However, on a monthly over-the-year basis, the Index was up 0.37 percent from its same-month value in 2005. Since turning positive 40 months ago, the Leading Index has been up in 35 months, down in six months, and unchanged in one month. In September, the sharp decline in automobile registrations pulled the Index down.

- Automobile registrations were down sharply following their strong gain in August; while,
- Consumer expectations (consumer confidence six months hence) rose in September following a sharp decline in August; and,
- Initial claims for unemployment insurance decreased (improved) on a seasonally adjusted basis after rising (worsening) in July and August.

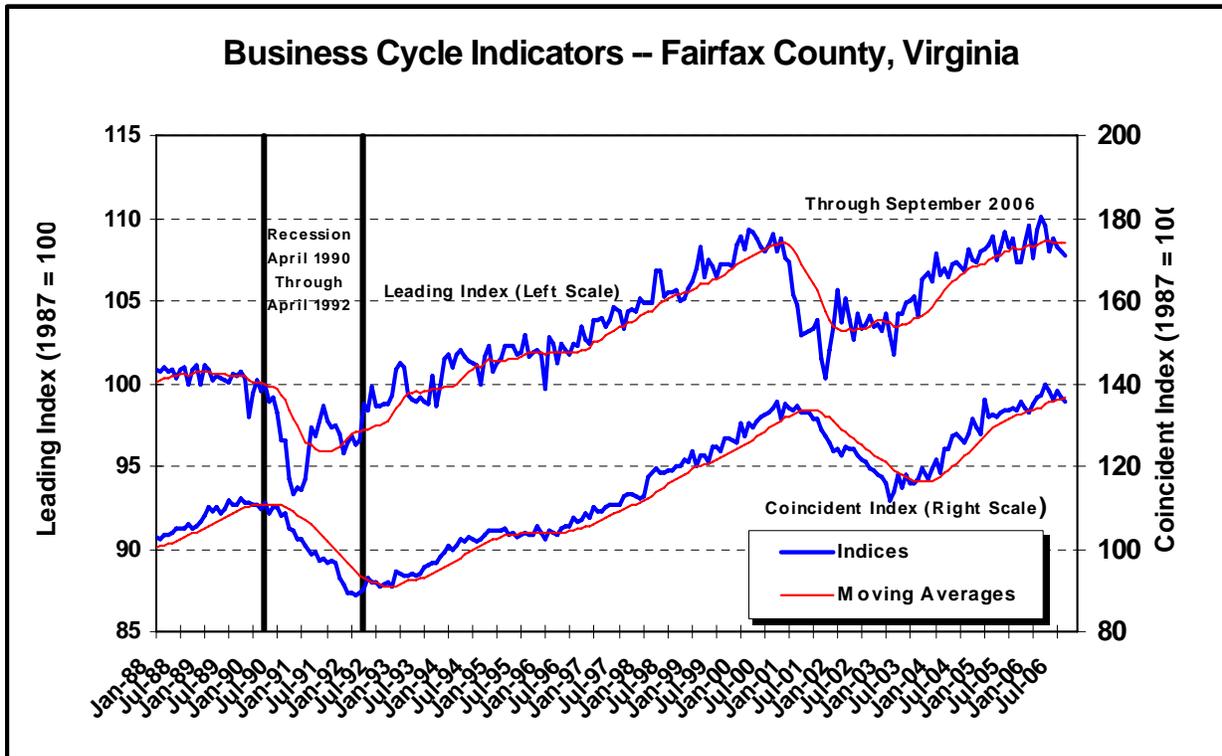
In September, the Fairfax County economy continued to struggle with the effects of a weaker housing market and the consequences of the gasoline price run up in the spring. Even though gasoline prices began to retreat from their early August high, consumer confidence remained lower and auto sales suffered their greatest monthly over-the-year decline in a year. Still, the underlying strength of the County's economy was confirmed by its accelerating job growth in September.

The short-term conditions that dragged the economy lower since April also undercut the Leading Index. While the Leading Index has declined for three consecutive months, its September value was higher than it was in September 2005, and two of its three indicators pointed to future growth. With gasoline prices down 25 percent since early August and consumer confidence in the future (expectations) rising, the County's economy is anticipated to re-accelerate over the fourth quarter before slowing in 2007.

CURRENT CONDITIONS

The Fairfax County economy experienced a broad-based slowing of its expansion during the May-September period. Rising gasoline prices, slowing housing sales, and decreased residential construction spending were responsible for much of this slowdown. Sagging consumer confidence was reflected in weaker retail sales and a substantial slowdown in automobile registrations (sales). Weaker consumer spending and corresponding lower business confidence resulted in slow job growth during May, June and July. These short-term conditions that undercut the County's economy began to improve in August and now the long-term forces that will shape the economy's performance over the coming year and beyond are becoming more clear.

Job growth has remained the most indicative of all the indicators as it is the source of income growth, it attracts new residents to the area and translates into new housing demand and increased consumer spending potential. Job growth slowed in Northern Virginia and in the County over the summer but rebounded in September with the County's employment base adding 19,556 new jobs since September 2005, accounting for 55 per-



Source: Center for Regional Analysis, George Mason University

cent of Northern Virginia's job growth and 27 percent of the metropolitan area's total gain. Sixty percent of these new jobs are classified as professional and business services reflecting continued hiring by federal contractors and other higher value-added employers. These jobs represent above-average income levels and add spending power to the local economy. With rising consumer confidence (it was up in October locally while off slightly nationally), retail sales should register strong gains in the coming holiday season.

Other labor force indicators confirm the economy's underlying strength. Unemployment fell to 2.0 percent down from 2.3 percent a year ago and initial claims for unemployment insurance fell on a seasonally adjusted basis from August. With a stronger job market, growing household earnings, rising consumer confidence, and lower gasoline prices, consumer spending should ramp up over the fourth quarter and drive the economy to its best quarterly performance since the first quarter.

NEAR-TERM OUTLOOK

The Leading Index has dropped well off its peak established in March of this year. Since

then it has drifted lower in response to short-term forces. With these negative conditions improving—even the residential housing market appears to have bottomed out—the Index is poised to move higher. While still slightly lower than in August of 2006, it is higher than it was a year ago and should move higher in the coming months pointing to further growth in 2007.

If oil prices do not rise next spring as they did this year and the housing market resumes a “normal” growth pattern as is projected by mid-year, the Fairfax County economy should perform as forecast in 2007. The Washington area, Northern Virginia, and Fairfax County economies are all expected to grow more slowly over the coming year as the business cycle enters its second half. Job growth in the County, which has ranged between 17,000 and 20,000 jobs this year, will fall in the range of 15,000 to 18,000 new jobs next year. Unemployment will remain near current levels and consumer spending will equal or exceed this year's level. The County's economic growth rate peaked in 2004 and has slowly decelerated since then and will continue this trend into 2008 in the absence of major disruptions in federal contracting or a sharp increase in oil prices.

Fairfax County, Virginia Economic Indicators Current and Previous Months

Economic Indicator	Estimates			Percent Change	
	Sep-06 Prelim.	Aug-06 Final	Sep-05 Final	Aug-06 to Sep-06	Sep-05 to Sep-06
Fairfax County Business Cycle Indicators					
Coincident Index (1987 = 100)	135.78	136.62	133.57	-0.62	1.65
Leading Index (1987 = 100)	107.70	108.01	107.30	-0.30	0.37
Fairfax County Coincident Index Components					
Estimated Total Wage & Salary Employment (Seasonally Adjusted)	637,984	635,212	618,428	0.44	3.16
<i>Estimated Total Wage & Salary Employment (Unadjusted)</i>	638,673	635,517	619,096	0.50	3.16
Transient Occupancy Tax (\$'000='87, Smoothed, Seasonally Adjusted)	766	804	755	-4.75	1.43
<i>Transient Occupancy Tax (\$'000=Current, Smoothed Only)</i>	1,572	1,603	1,467	-1.95	7.15
Sales Tax Receipts (\$'000='87, Seasonally Adjusted)	9,501	9,525	8,997	-0.25	5.60
<i>Sales Tax Receipts (\$'000=Current, Unadjusted)</i>	13,100	12,917	12,861	1.42	1.86
South Atlantic Consumer Confidence	136.5	140.8	139.5	-3.05	-2.15
Fairfax County Leading Index Components					
New Automobile Registrations (Seasonally Adjusted)	4,851	6,589	5,588	-26.38	-13.20
<i>Automobile Registrations (Unadjusted)</i>	5,516	7,448	6,355	-25.94	-13.20
Initial Unemployment Claims (Seasonally Adjusted)	956	994	864	-3.87	10.65
<i>Initial Unemployment Claims (Unadjusted)</i>	800	917	723	-12.76	10.65
South Atlantic Consumer Expectations (Unadjusted)	93.2	87.3	83.8	6.76	11.22
Fairfax County Labor Force					
Total Labor Force (Seasonally Adjusted)	610,138	602,009	599,441	1.35	1.78
<i>Total Labor Force (Unadjusted)</i>	605,738	610,311	595,118	-0.75	1.78
Employed Labor Force (Seasonally Adjusted)	597,961	588,144	585,493	1.67	2.13
<i>Employed Labor Force (Unadjusted)</i>	592,348	595,858	579,997	-0.59	2.13
Unemployed Labor Force (Seasonally Adjusted)	12,177	13,865	13,948	-12.17	-12.70
<i>Unemployed Labor Force (Unadjusted)</i>	13,390	14,453	15,121	-7.35	-11.45
Unemployment Rate (Percent, Seasonally Adjusted)	2.0%	2.3%	2.3%	--	--
<i>Unemployment Rate (Percent, Unadjusted)</i>	2.2%	2.4%	2.5%	--	--

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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