

Fairfax County Economic Index

VOLUME X, NUMBER 7

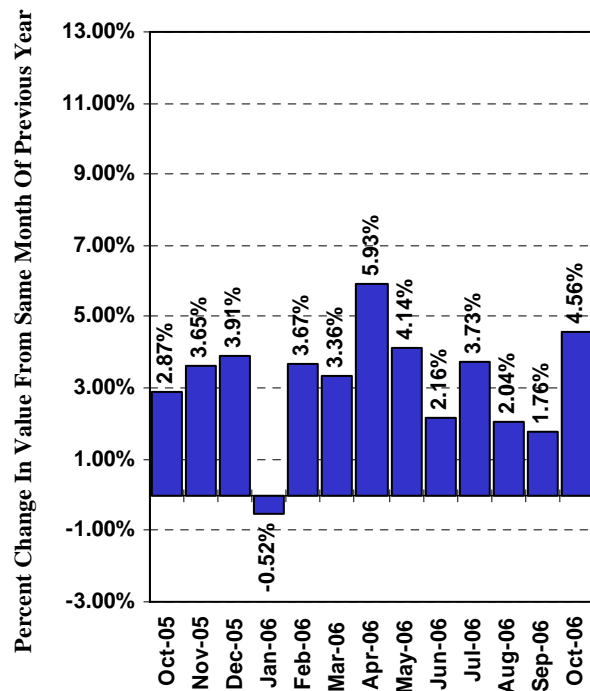
DECEMBER 2006

The County's Economy Rebounds In October Leading Indicators Point to Slower Growth

The **Fairfax County Coincident Index**, which represents the current state of the County's economy, increased to 141.63 in October for a gain of 4.2 percent. This gain follows five months in which the Index declined four times. On a monthly over-the-year basis, the Coincident Index continued to track higher gaining 4.56 percent from October of 2005 for its strongest gain since April and extending its monthly over-the-year gain to a ninth consecutive month. Over the full expansion, the Index has increased in thirty-four of the past thirty-five months (January 2006 was the sole negative month). For the first time in more than a year, all four of the Index's indicators were positive in October.

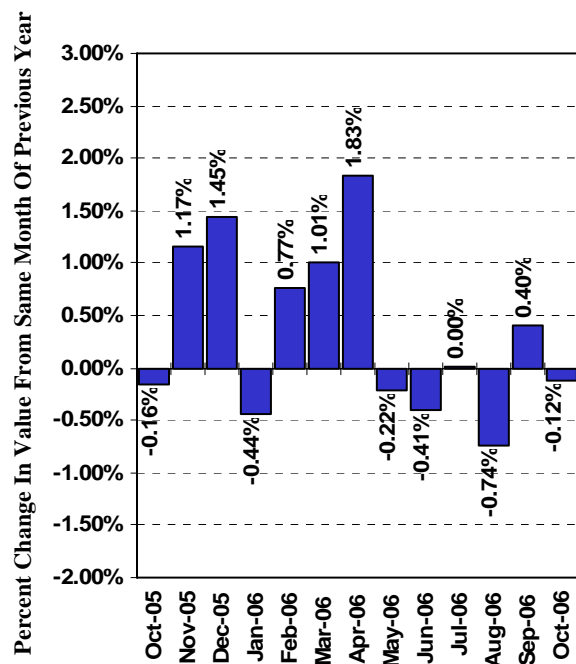
- Consumer confidence (in the present) rose in October following two monthly declines and a downward trend extending back to May;
- Transient occupancy tax collections, adjusted for inflation and seasonal variation, also increased following two monthly declines and a negative trend extending back to May;
- 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 for the third time following three monthly declines.

**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 107.15 in October for a loss of 0.54 percent. This is the Index's sixth monthly decline over the past seven months. On a monthly over-the-year basis, the Index was down 0.12 percent from its same-month value in 2005 and has increased only once (in September) over the last six months. Since turning positive 43 months ago, the Leading Index has been up in 35 months, down in seven months and unchanged in one month. In October, two of the three leading indicators contributed to its decline.

- Automobile registrations were down for the fifth time in the last seven months; and,
- Initial claims for unemployment insurance increased (worsened) on a seasonally adjusted basis for the third time in four months; while,
- Consumer expectations (consumer confidence six months hence) rose for the third time in four months.

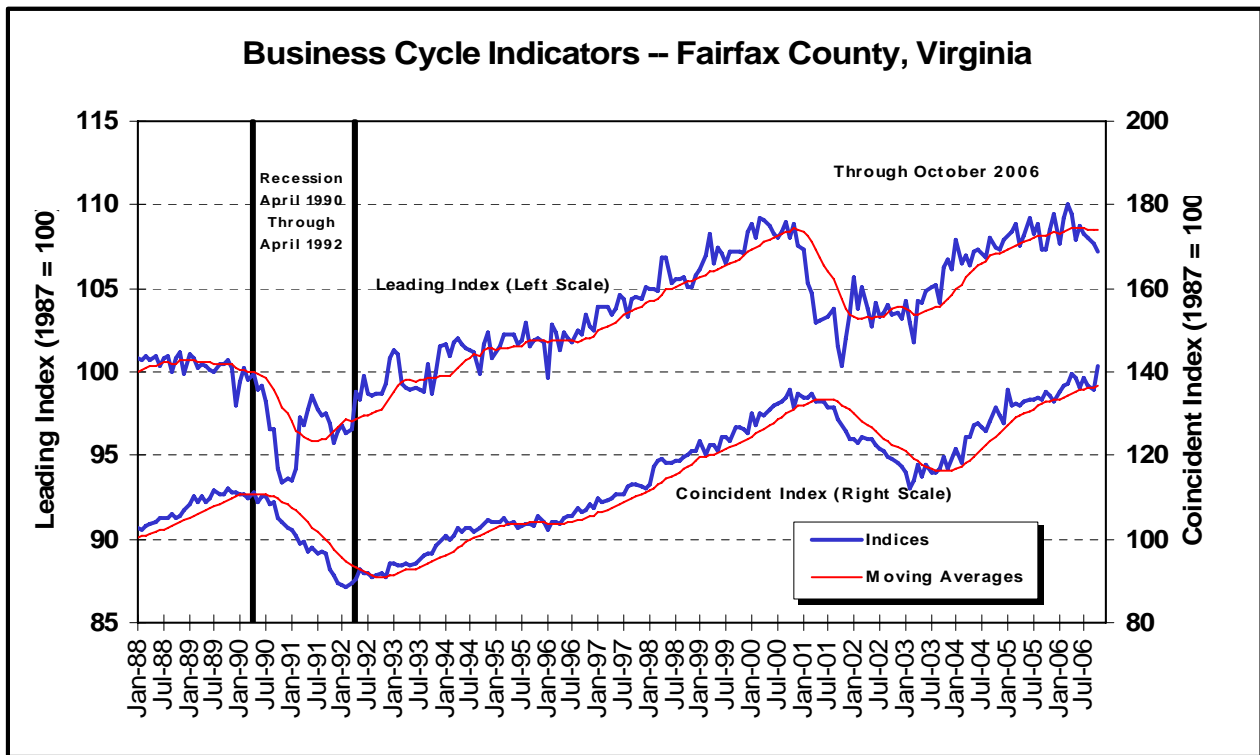
Lower gasoline prices fueled increased consumer spending in October and drove the County's economy up sharply after suffering from the combined impacts of high energy costs, a slower residential market, and lower consumer confidence since May. As a result, all coincident indicators were positive in October reversing their respective downward trend. The underlying strength of the Fairfax County economy is seen in the long and relatively consistent monthly over-the-year performance of the Coincident Index that has been positive in thirty-five of the last thirty-six months.

In contrast to the Coincident Index, the County's Leading Index has been lagging for six months. This negative performance has provided a clear signal that the County's economy is likely to moderate over the coming six months. The one bright spot in the Index's recent performance is the reversal of consumer expectations that had been negative over the year's middle quarters but has now moved higher, suggesting that consumers

CURRENT CONDITIONS

The Fairfax County economy registered its strongest performance of the year in October reflecting the combination of lower gasoline prices, stronger consumer confidence, and increased retail spending. As consumers drive the economy in the short run, these positive indicators confirm the month's strong performance. Underlying this performance, however, is the County's continuing strong job growth. Over the year, the County's employment base is estimated to have grown by 18,850 net new jobs for a 3 percent gain. Job growth translates into economic activity and personal income.

The strong job growth experienced in the County is reflected in a tightening labor market with unemployment dropping below September's 2.0% rate to 1.9% in October. Continuation of this strong job growth is threatened by the availability and quality of labor resources in the County, as it must compete with adjacent counties for new workers and high housing prices have made relocation to Northern Virginia increasingly less attractive.



Source: Center for Regional Analysis, George Mason University

With business earnings and employee wages and salaries growing and energy costs declining along with decreased inflation (and interest rates holding steady), there was a real increase in liquidity and disposable income to help fuel the economy in October. Whether this favorable convergence of lower costs and rising incomes will carry through the fourth quarter and into next year is one of the big unanswered question.

NEAR-TERM OUTLOOK

The economic outlook projected by the recent performance of the Leading Index is for a substantial slowing of the County's growth. With the Index being negative for four months in a row and being positive only once in seven months, it would be easy to conclude that the economy in 2007 is going to be much weaker than in 2006.

While the trend is pointing to slower growth, the degree of slowdown will be shaped by both local and national factors as well as conditions that are still in flux. The key determinants

will include the timing of the residential building industry's recovery and the patterns of energy prices. If residential construction picks up in the spring of 2007 as is expected and energy prices stay neutral, the economy will re-accelerate defying the Leading Index's current forecast. If residential construction does not recover in 2007 and non-residential construction slows down after mid-year, and energy prices repeat their patterns of 2005 and 2006, the trend towards slower growth in 2007 signaled by the Leading Index will be correct.

With consumer expectations rising and income growth strong in Fairfax County and throughout Northern Virginia, the economy's expansion is likely to continue in 2007 regardless of energy prices and the health of the construction industry. Still, the indicators are pointing to slower future growth at this time and the conditions responsible for slower growth are more likely to worsen than to exceed the forecast; that is, the risk to the forecast is on the downside.

Fairfax County, Virginia Economic Indicators Current and Previous Months

| Economic Indicator | Estimates | | | Percent Change | |
|---|-------------------|-----------------|-----------------|------------------------|------------------------|
| | Oct-06 Prelim. | Sep-06 Final | Oct-05 Final | Sep-06 to Oct-06 | Oct-05 to Oct-06 |
| Fairfax County Business Cycle Indicators | | | | | |
| Coincident Index (1987 = 100) | 141.63 | 135.92 | 135.46 | 4.20 | 4.56 |
| Leading Index (1987 = 100) | 107.15 | 107.73 | 107.28 | -0.54 | -0.12 |
| Fairfax County Coincident Index Components | | | | | |
| Estimated Total Wage & Salary Employment (Seasonally Adjusted) | 642,110 | 638,495 | 623,260 | 0.57 | 3.02 |
| <i>Estimated Total Wage & Salary Employment (Unadjusted)</i> | 642,085 | 639,185 | 623,235 | 0.45 | 3.02 |
| Transient Occupancy Tax (\$'000='87, Smoothed, Seasonally Adjusted) | 911 | 766 | 789 | 18.97 | 15.55 |
| <i>Transient Occupancy Tax (\$'000=Current, Smoothed Only)</i> | 1,706 | 1,572 | 1,400 | 8.51 | 21.82 |
| Sales Tax Receipts (\$'000='87, Seasonally Adjusted) | 10,279 | 9,501 | 9,141 | 8.18 | 12.44 |
| <i>Sales Tax Receipts (\$'000=Current, Unadjusted)</i> | 12,987 | 13,100 | 11,739 | -0.86 | 10.63 |
| South Atlantic Consumer Confidence | 149.6 | 136.6 | 138.5 | 9.52 | 8.01 |
| Fairfax County Leading Index Components | | | | | |
| New Automobile Registrations (Seasonally Adjusted) | 4,004 | 4,851 | 5,550 | -17.45 | -27.86 |
| <i>Automobile Registrations (Unadjusted)</i> | 3,853 | 5,516 | 5,341 | -30.15 | -27.86 |
| Initial Unemployment Claims (Seasonally Adjusted) | 1,041 | 956 | 900 | 8.91 | 15.58 |
| <i>Initial Unemployment Claims (Unadjusted)</i> | 957 | 800 | 828 | 19.63 | 15.58 |
| South Atlantic Consumer Expectations (Unadjusted) | 98.2 | 93.8 | 85.5 | 4.69 | 14.85 |
| Fairfax County Labor Force | | | | | |
| Total Labor Force (Seasonally Adjusted) | 612,453 | 610,138 | 603,660 | 0.38 | 1.46 |
| <i>Total Labor Force (Unadjusted)</i> | 607,239 | 605,738 | 598,520 | 0.25 | 1.46 |
| Employed Labor Force (Seasonally Adjusted) | 600,896 | 597,961 | 589,671 | 0.49 | 1.90 |
| <i>Employed Labor Force (Unadjusted)</i> | 595,570 | 592,348 | 584,445 | 0.54 | 1.90 |
| Unemployed Labor Force (Seasonally Adjusted) | 11,558 | 12,177 | 13,988 | -5.09 | -17.38 |
| <i>Unemployed Labor Force (Unadjusted)</i> | 11,669 | 13,390 | 14,075 | -12.85 | -17.09 |
| Unemployment Rate (Percent, Seasonally Adjusted) | 1.9% | 2.0% | 2.3% | -- | -- |
| <i>Unemployment Rate (Percent, Unadjusted)</i> | 1.9% | 2.2% | 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.

Prepared by:
Center for Regional Analysis
George Mason University
<http://cra.gmu.edu>

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)

Inquiries should be directed to:

The Fairfax County
Department of Management and Budget
12000 Government Center Parkway, Suite
561
Fairfax, Virginia 22035-0074
(703) 324-2391 or