

Fairfax County Economic Index

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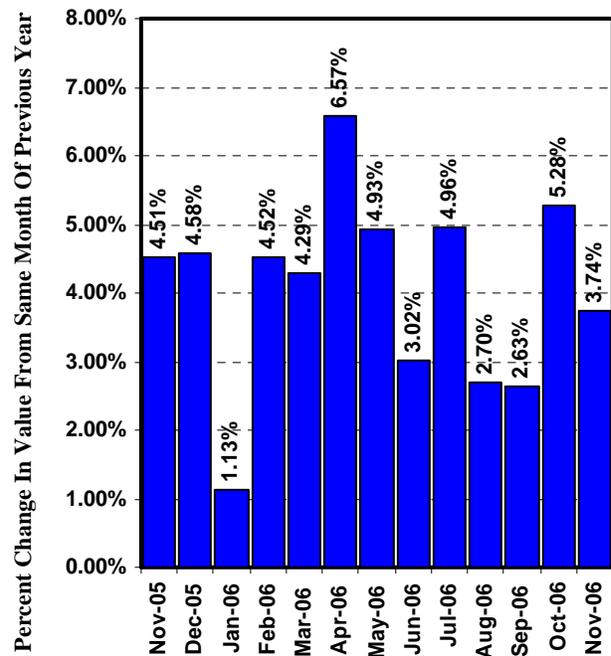
JANUARY 2007

The County's Economy Slows In November Leading Indicators Point to Continuing Growth

The **Fairfax County Coincident Index**, which represents the current state of the County's economy, decreased to 148.65 in November for a decline of 0.11 percent. This marginal decrease follows a strong gain in October. On a monthly over-the-year basis, the Coincident Index continued to track higher gaining 3.74 percent from November of 2005 and extended its monthly over-the-year gain to a thirty-sixth consecutive month. In November, two of the Index's four indicators were negative.

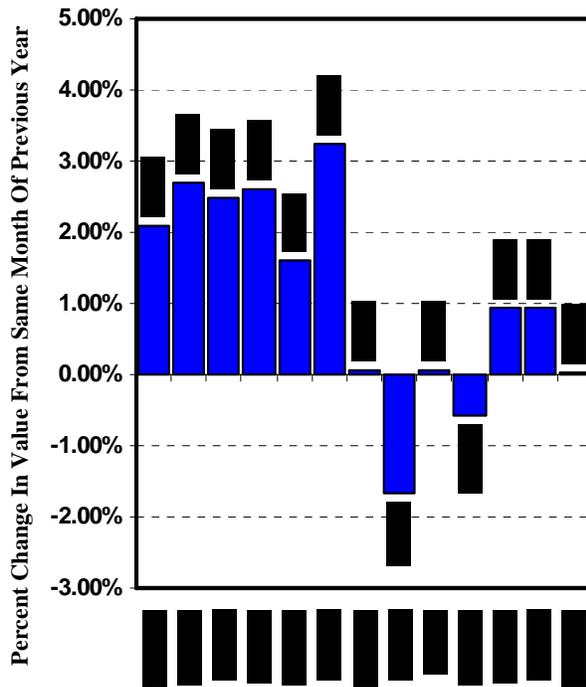
- Total employment decreased on a month-to-month basis following three monthly increases; and,
- Transient occupancy tax collections, adjusted for inflation and seasonal variation, decreased for the second time in three months; while,
- Consumer confidence (in the present) increased in November for a second month; and,
- Sales tax revenues, adjusted for inflation and seasonal variation, increased for the fourth consecutive month.

**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, increased to 120.3 in November for a gain of 0.63 percent. This is the Index's first increase following four monthly declines. On a monthly over-the-year basis, the Index was slightly higher, 0.03 percent, than its same-month value in 2005 and has increased for three consecutive months. Since turning positive 42 months ago, the Leading Index has been up in 37 months and down in five months. Note that the number of building permits has been restored as a component of the Leading Index as these data are now available. In November, three of the four leading indicators contributed to the Index's increase.

- Automobile registrations were up after being down in three of the previous four months;
- Consumer expectations (consumer confidence six months hence) rose for the fourth time in five months; and,
- Residential building permits increased for the third time in four months; while,
- Initial claims for unemployment insurance increased (worsened) on a seasonally adjusted

basis after declining for two months.

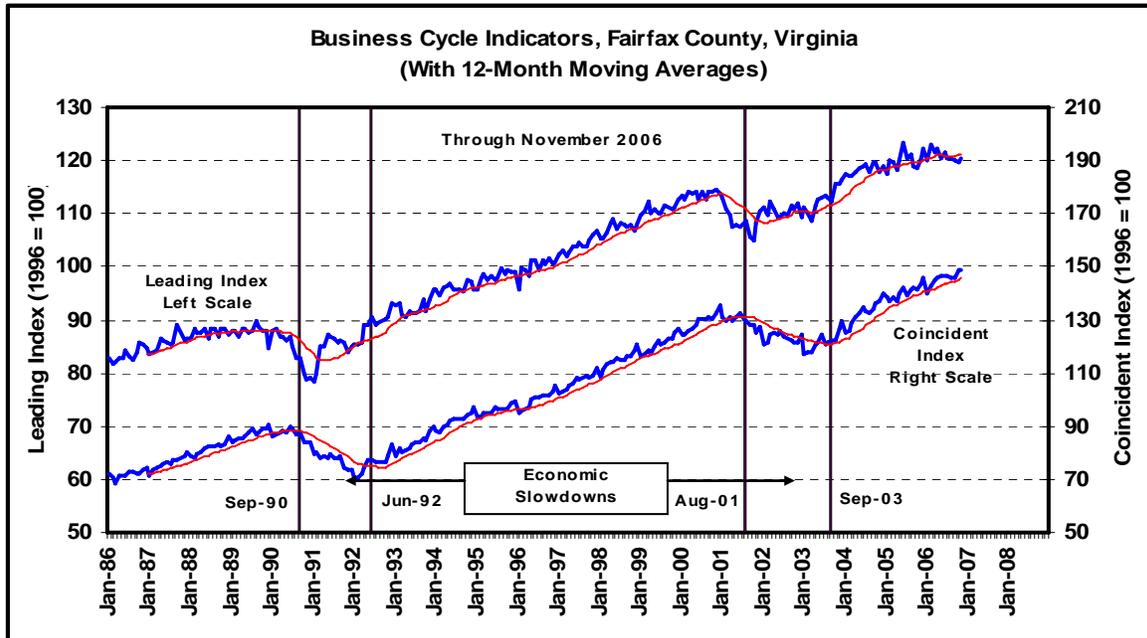
The three-year old expansion of the Fairfax County economy slowed slightly in November although it continued to support a strong gain in consumer spending. This moderation in the growth rate reflected a combination of seasonal factors and market adjustments in response to the economy's strong October performance.

The Leading Index, after trending down since May, rebounded in November and, on a monthly over-the-year basis, continued pointing to future growth. With consumer expectations increasing for a third month and automobile registrations and residential building permits both rising, the economy's fundamentals appear in good

CURRENT CONDITIONS

The national economy is projected to continue its slowing trend that began in the second quarter of 2006 through most if not all of 2007. Three primary factors are driving this slowdown: a sharp decline in residential construction spending, a rapid run up in oil prices during the second and third quarters of 2006, and the steady interest rate increased by the Federal Reserve Board over a two-year period ending in June 2006. Even though interest rates have held steady for six months (mortgage rates have actually declined over this period) and gasoline prices have retreated since August, in effect adding to consumer spending potential, the continuing decline in residential construction spending has continued to dampen economic growth. These patterns are expected to continue in 2007 at least through mid-year at which time the Fed may be forced to lower the Federal Funds rate to boost the economy and the residential building sector may have begun to expand by the third quarter again after its 18-month slowdown.

These same forces have impacted the Fairfax County economy although its underlying strength has helped to mute their full effect. Still, residential building has slowed and the residential re-sale market has experienced a substantial slowdown in the number of sales even though prices have not tumbled significantly. The slowdown in the residential market, both new housing construction and re-sales, has had broad secondary impacts on the local economy as seen in slower sales of



Source: Center for Regional Analysis, George Mason University

building materials, furniture and fixtures, appliances, and a range of professional services associated with project design, home financing, and property transfers.

These negative effects help to explain the slight slowdown in the County's job growth over the course of the year. Still, the County's employment base has added almost 19,000 net new jobs in 2006 and its other labor market indicators remain positive. While unemployment inched up in November to 2.2 percent, which is still considered to be low, it was well below its level in November 2005. The actual number of initial unemployment claims declined from October although they were up slightly on a seasonally adjusted basis. This continuing strong job market has supported healthy income growth and continuing consumer spending, the key driver of the local economy.

With consumer confidence rising, the County's income growth has translated into higher retail spending. Retail sales have increased each month since July when gasoline prices were at their peak. Since then, as gasoline prices have declined, retail spending has increased. On a seasonally and inflation adjusted basis, retail sales were up almost 9 percent since November 2005. Slowing inflation has also reinforced this consumer spending potential. These gains in disposable personal income should have paved the way for strong sales during December's holiday shopping period giving a year-end boost to the economy before it falls into its first quarter 2007 winter doldrums.

NEAR-TERM OUTLOOK

The Leading Index recovered slightly in November following six months during which it seesawed with losses off-setting gains. As a result of this uneven performance, the Index was no higher in November 2006 than in November 2005. This performance could be interpreted as a turning point; that is, a transition from the fast expansion of the past three years to a slower growing and more mature expansion, or in the worst case, to a downturn. At this stage, the indicators appear to be pointing to slower growth going forward rather than a retreat.

With consumer spending holding up due to strong job and income growth, with oil prices and interest rates expected to remain steady over the coming six months, and with the pace of residential construction expected to pick up by mid-year, the signs are favorable for a resumption of the economy's strong expansion following this slowdown that will have spanned the period from April 2006 to mid-2007.

Forecasts for 2007 are for the economy to slowly accelerate over the year. Key to this forecast will be continued strong consumer spending (this depends on oil prices holding in their current range and inflation dropping back under 2 percent), the residential markets completing their normalization cycle, and federal spending and resulting job growth continuing to grow at their historic rates. 2007 will be a year of transition from an over-heating economy to a maturing and sustainable economy.

Fairfax County, Virginia Economic Indicators Current and Previous Months

Economic Indicator	Estimates			Percent Change	
	Nov-06 Prelim.	Oct-06 Final	Nov-05 Final	Oct-06 to Nov-06	Nov-05 to Nov-06
Fairfax County Business Cycle Indicators					
Coincident Index (1996 = 100)	148.65	148.82	143.28	-0.11	3.74
Leading Index (1996 = 100)	120.30	119.55	120.26	0.63	0.03
Fairfax County Coincident Index Components					
Estimated Total Wage & Salary Employment (Seasonally Adjusted)	636,181	638,978	617,204	-0.44	3.07
<i>Estimated Total Wage & Salary Employment (Unadjusted)</i>	644,814	642,085	625,579	0.43	3.07
Transient Occupancy Tax (\$'000=1987, Smoothed, Seasonally Adjusted)	814	866	778	-5.96	4.65
<i>Transient Occupancy Tax (\$'000=Current, Smoothed Only)</i>	1,628	1,706	1,473	-4.55	10.55
Sales Tax Receipts (\$'000=1987, Seasonally Adjusted)	9,803	9,836	8,997	-0.33	8.95
<i>Sales Tax Receipts (\$'000=Current, Unadjusted)</i>	13,005	12,987	12,058	0.14	7.85
South Atlantic Consumer Confidence	150.4	149.4	142.3	0.67	5.69
Fairfax County Leading Index Components					
New Automobile Registrations (Seasonally Adjusted)	3,779	3,764	4,887	0.39	-22.68
<i>Automobile Registrations (Unadjusted)</i>	3,262	3,853	4,219	-15.34	-22.68
Initial Unemployment Claims (Seasonally Adjusted)	979	953	795	2.65	23.07
<i>Initial Unemployment Claims (Unadjusted)</i>	875	957	711	-8.57	23.07
<i>Building Permits, Total Number of Units (Seasonally Adjusted)</i>	162	126	184	28.51	-11.80
<i>Building Permits, Total Number of Units (Unadjusted)</i>	142	129	161	10.08	-11.80
South Atlantic Consumer Expectations (Unadjusted)	100.7	97.5	104.6	3.28	-3.73
Fairfax County Labor Force					
Total Labor Force (Seasonally Adjusted)	604,197	604,431	594,702	-0.04	1.60
<i>Total Labor Force (Unadjusted)</i>	608,206	607,239	598,648	0.16	1.60
Employed Labor Force (Seasonally Adjusted)	591,112	592,031	579,518	-0.16	2.00
<i>Employed Labor Force (Unadjusted)</i>	595,913	595,570	584,225	0.06	2.00
Unemployed Labor Force (Seasonally Adjusted)	13,085	12,401	15,184	5.52	-13.82
<i>Unemployed Labor Force (Unadjusted)</i>	12,293	11,669	14,423	5.35	-14.77
Unemployment Rate (Percent, Seasonally Adjusted)	2.2%	2.1%	2.6%	--	--
<i>Unemployment Rate (Percent, Unadjusted)</i>	2.0%	1.9%	2.4%	--	--

Note: 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. Seasonal factors have been updated to reflect average monthly fluctuations during the period January 1988 through December 2005.

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