

Fairfax County Economic Index

VOLUME X, NUMBER 9

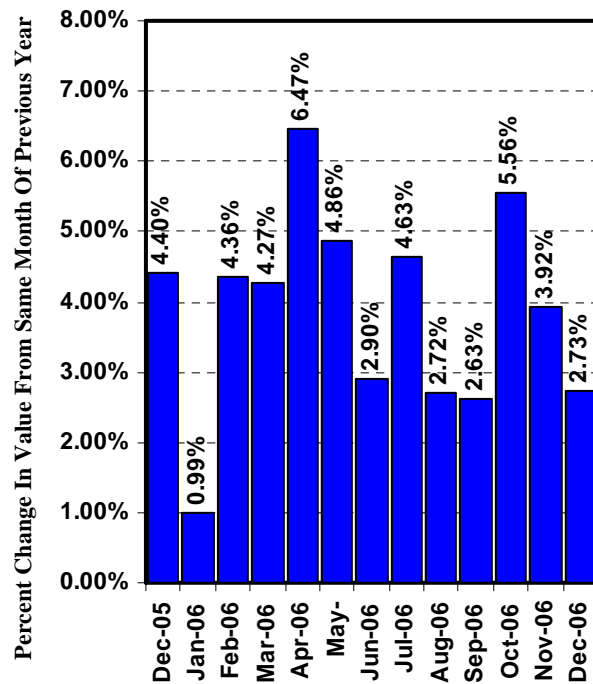
FEBRUARY 2007

County Economy Continues To Slow in December However Leading Indicators Up Sharply

The **Fairfax County Coincident Index**, which represents the current state of the County's economy, decreased to 144.36 in December for a decline of 1.32 percent. This is the Index's fourth decline in five months. However, on a monthly over-the-year basis, the Coincident Index continued to track higher gaining 2.73 percent from December of 2005 and extending its monthly over-the-year gain to a thirty-seventh consecutive month. In December, three of the Index's four indicators were negative.

- Sales tax revenues, adjusted for inflation and seasonal variation, fell for a second month recording their largest decline in any month of the year;
- Total employment decreased on a month-to-month basis for a second month; and,
- Transient occupancy tax collections, adjusted for inflation and seasonal variation, decreased for the third time in four months; while,
- Consumer confidence (in the present) increased in December for a third month.

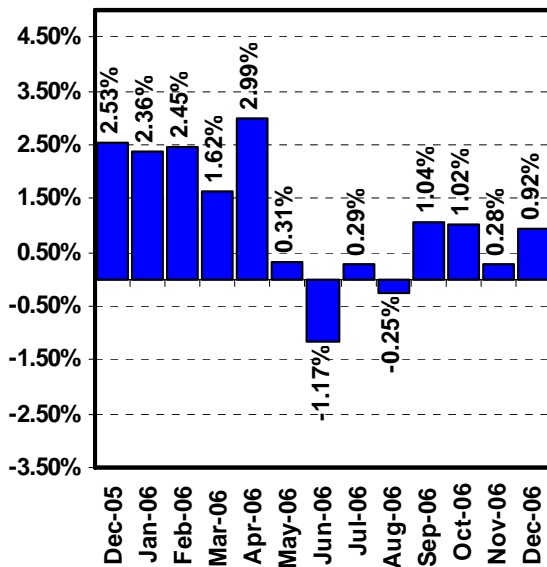
**Fairfax County Coincident Index
Monthly Over-The-Year Changes**



Source: Center for Regional Analysis, George Mason University

Percent Change In Value From Same Month Of Previous Year

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 122.67 in December for a gain of 2.02 percent. This is the Index's second increase in a row following four monthly declines. On a monthly over-the-year basis, the Index was 0.92 percent higher than in December 2005 and has now increased for four consecutive months following four months over which the Index had trended downward. Since turning positive 43 months ago, the Leading Index has been up in 38 months and down in five months. In December, three of the four leading indicators contributed to its increase.

- Automobile registrations were up sharply in December after experiencing strong declines in July, September and October;
- Consumer expectations (consumer confidence six months hence) rose for the fifth time in six months; and,
- Initial claims for unemployment insurance decreased (improved) on a seasonally adjusted basis after increasing sharply in November; while,
- Residential building permits fell in December following a surge in November.

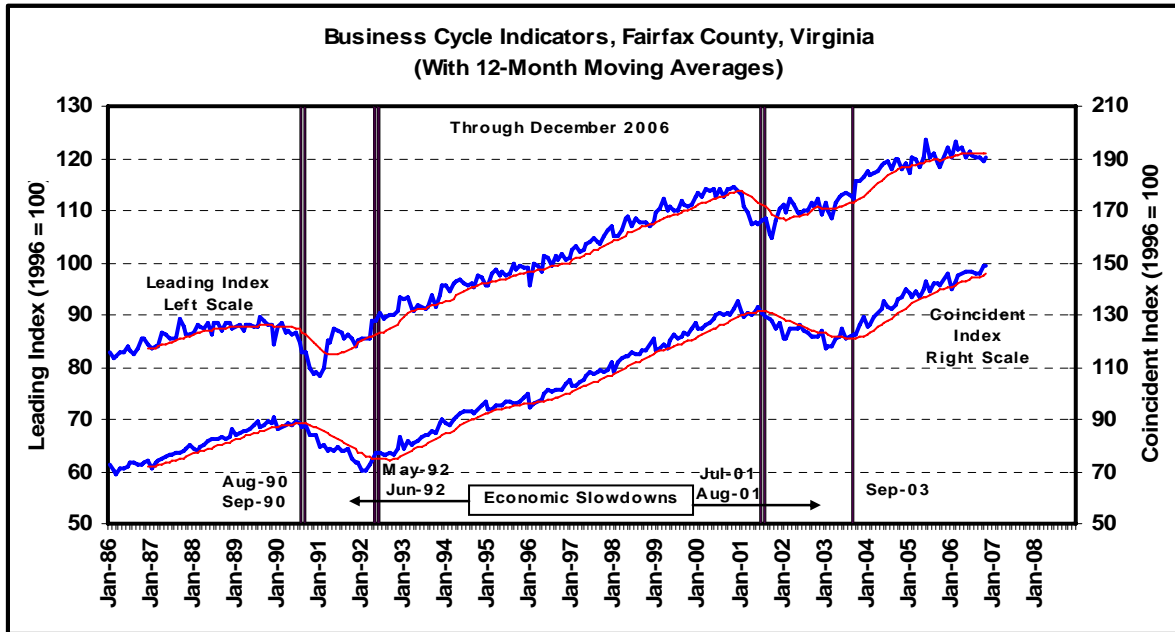
December's data present a mixed picture of the Fairfax County economy at the end of the year. The Coincident Index continues to lag based on decelerating growth in consumer spending and slower job growth in spite of continuing gains in consumer confidence and a sharp rise in the Leading Index. This pattern is largely a result of Fairfax County's strong expansion that began in late 2002 with growth rates far outpacing the gains being achieved both regionally and nationally. As the County's economy (which continues to grow faster than the Washington regional economy that is still outpacing the national economy) slows down from its high rate of growth to a more supportable growth level, its performance measures will be negative; their sign being determined by the high rates of growth achieved in 2004 and 2005. Looking behind the numbers confirms that the month-to-month decline in the Coincident Index is only a realignment of the economy's growth trend following three years of rapid growth with the Leading Index pointing to healthy growth in 2007.

CURRENT CONDITIONS

Consumer spending, which accounts for two-thirds of the nation's gross domestic product, rebounded in December and drove the economy's growth faster than had been expected ending the year with a 3.5 percent fourth quarter increase and raising the year's growth rate to healthy 3.4 percent. Even with new residential construction not expected to recover before the third quarter, consumer spending is still projected to carry the economy in 2007 albeit at a slower pace (2.7 percent) with energy and inflation costs expected to remain neutral.

These national forces were not as evident in the County's economic performance in December. While retail sales tax revenues were up sharply in December from November on a non-seasonally adjusted basis, when sales were seasonally adjusted they actually fell below expectation. However, strong gains in automobile sales suggest that consumer spending is still a positive force in the economy.

The continuing high levels of consumer confidence in this region point to a favorable retail climate. Both consumer confidence in the present and consumer expectations are trending up and exceed national averages. As consumer spending includes housing, the expected normalization of



Source: Center for Regional Analysis, George Mason University

the housing market in Northern Virginia in 2007 should support stronger consumer spending as the year progresses. Average housing sales prices moved higher in January 2007 for the first time since last June in Northern Virginia and the supply of unsold houses has fallen significantly from last year's mid-year peak.

The economy's other principle driver remains its strong employment base. While job growth has slowed slightly over the course of the year, it is still strong adding an estimated 18,500 new full-time, year-round jobs between December 2005 and 2006. As hiring in December tends to be impacted by seasonal part-time jobs that are not included in the payroll jobs count, this gain in full-time jobs along with the growth of part-time jobs further tightened the County's labor market. This tightening is seen in the County's 1.9 percent unemployment rate, down from 2.1 percent in December 2005.

Not shown in these employment data is the continuing shift of job growth towards higher skills and pay levels. Overall in Northern Virginia, half of all full-time jobs added over the past twelve months were classified as professional and business service jobs. In comparison, only 35% of the Washington region's new jobs fell in this category. Not only has Fairfax County's economy supported a 3% annual job growth rate in 2006, the quality of these jobs and the incomes

These strong gains in higher income jobs have further strengthened the County's potential for consumer spending growth in 2007.

NEAR-TERM OUTLOOK

December's sharp gain in the Leading Index puts it back on its long-term trend dating back more than three years. December's gain looks big compared to its recent performance that was negatively impacted by short-term conditions, especially the rapid rise in gasoline prices and resultant decline in consumer expectations. With the energy price correction complete and the negative residential construction effect normalizing, the Leading Index appears to be providing a clear signal that the County's economy will continue its healthy expansion over the year.

However, the quarterly pattern of this expansion is not as clear. At the national level, after starting slowly in the first quarter, each subsequent quarter is projected to be stronger leading to 2008 experiencing faster economic growth than in 2007 and 2007 being the slowest year since 2003. While the Fairfax County economy is substantially outperforming the national economy, it, too, may experience this quarterly acceleration over the year with the slower growth in the first quarter giving way to stronger growth as the residential construction picks up with improving weather and favorable market conditions.

Fairfax County, Virginia Economic Indicators Current and Previous Months

Economic Indicator	Estimates			Percent Change	
	Dec-06 Prelim.	Nov-06 Final	Dec-05 Final	Nov-06 to Dec-06	Dec-05 to Dec-06
Fairfax County Business Cycle Indicators					
Coincident Index (1996 = 100)	144.36	146.29	140.53	-1.32	2.73
Leading Index (1996 = 100)	122.67	120.24	121.55	2.02	0.92
Fairfax County Coincident Index Components					
Estimated Total Wage & Salary Employment (Seasonally Adjusted)	632,221	636,814	613,680	-0.72	3.02
<i>Estimated Total Wage & Salary Employment (Unadjusted)</i>	647,115	645,455	628,137	0.26	3.02
Transient Occupancy Tax (\$'000=1987, Smoothed, Seasonally Adjusted)	798	814	787	-2.04	1.34
<i>Transient Occupancy Tax (\$'000=Current, Smoothed Only)</i>	1,595	1,628	1,492	-2.02	6.90
Sales Tax Receipts (\$'000=1987, Seasonally Adjusted)	8,943	9,803	8,976	-8.77	-0.37
<i>Sales Tax Receipts (\$'000=Current, Unadjusted)</i>	16,901	13,005	17,129	29.96	-1.33
South Atlantic Consumer Confidence	150.5	150.2	144.1	0.20	4.44
Fairfax County Leading Index Components					
New Automobile Registrations (Seasonally Adjusted)	6,400	3,779	6,525	69.35	-1.92
<i>Automobile Registrations (Unadjusted)</i>	5,812	3,262	5,926	78.17	-1.92
Initial Unemployment Claims (Seasonally Adjusted)	868	979	794	-11.30	9.34
<i>Initial Unemployment Claims (Unadjusted)</i>	866	875	792	-1.03	9.34
<i>Building Permits, Total Number of Units (Seasonally Adjusted)</i>	143	164	270	-12.68	-47.17
Building Permits, Total Number of Units (Unadjusted)	112	143	212	-21.68	-47.17
South Atlantic Consumer Expectations (Unadjusted)	103.9	100.8	103.0	3.08	0.87
Fairfax County Labor Force					
Total Labor Force (Seasonally Adjusted)	602,654	604,197	591,755	-0.26	1.84
<i>Total Labor Force (Unadjusted)</i>	607,710	608,206	596,720	-0.08	1.84
Employed Labor Force (Seasonally Adjusted)	589,674	591,112	577,577	-0.24	2.09
<i>Employed Labor Force (Unadjusted)</i>	596,275	595,913	584,042	0.06	2.09
Unemployed Labor Force (Seasonally Adjusted)	12,979	13,085	14,178	-0.81	-8.46
<i>Unemployed Labor Force (Unadjusted)</i>	11,435	12,293	12,678	-6.98	-9.80
Unemployment Rate (Percent, Seasonally Adjusted)	2.2%	2.2%	2.4%	--	--
<i>Unemployment Rate (Percent, Unadjusted)</i>	1.9%	2.0%	2.1%	--	--

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.

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

We are on the web at:
www.co.fairfaxcounty.gov/economic

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