

Fairfax County Economic Index

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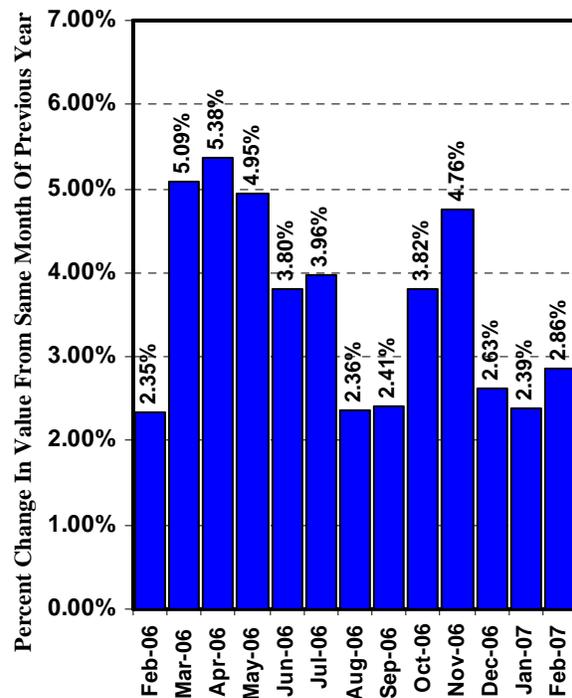
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Colder Weather Affects County Economy In February While Outlook Remains Good

The **Fairfax County Coincident Index**, which represents the current state of the County's economy, decreased to 148.95 in February for a decline of 1.79 percent. This decline follows January's sharp gain that had reflected the month's unusually warm weather. On a monthly over-the-year basis, the Coincident Index continued to track higher gaining 2.86 percent from February of 2006 extending its monthly over-the-year gain to a thirty-ninth consecutive month. In February, three of the Index's four indicators were negative.

- Total employment declined in February after having registered a strong gain in January;
- Transient occupancy tax collections, adjusted for inflation and seasonal variation, were down sharply in February; and,
- Sales tax revenues, adjusted for inflation and seasonal variation, registered its largest one-month decline in more than a year in February following a strong gain in January; while,
- Consumer confidence (in the present) increased after declining for two months.

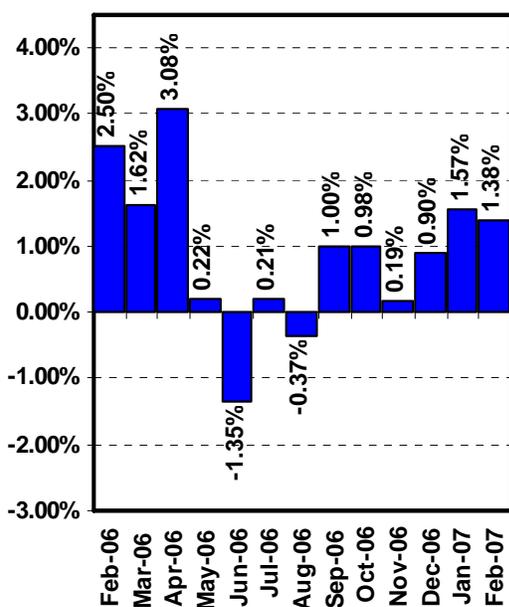
Fairfax County Coincident Index Monthly Over-The-Year Changes



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 124.37 in February for a gain of 2.01 percent. The Index's increase is the third in four months. On a monthly over-the-year basis, the Index was up 1.38 percent from February 2006 and has now increased for six consecutive months following four months over which the Index had trended downward. Since turning positive 45 months ago, the Leading Index has been up in 40 months and down in five months. In February, three of the four leading indicators contributed to its increase.

- Automobile registrations were up sharply in February after experiencing a sharp increase in January;
- Consumer expectations (consumer confidence six months hence) increased in February for the fifth time in the last six months; and,
- Initial claims for unemployment insurance decreased (improved) on a seasonally adjusted basis after increasing in January; while,
- Residential building permits were down for the second time in three months.

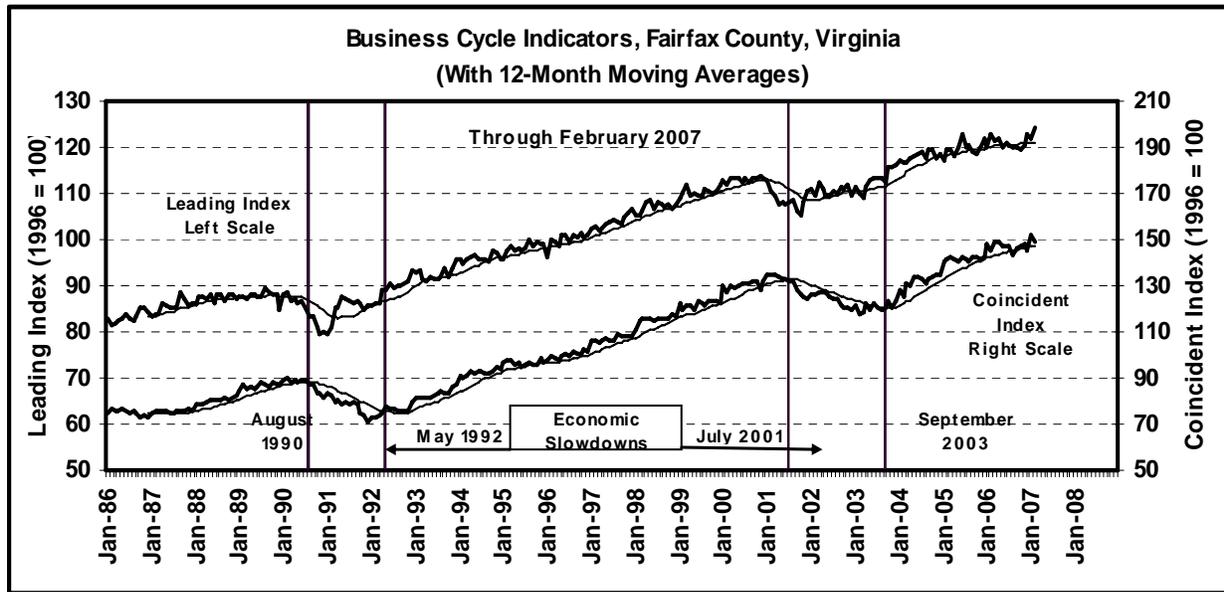
The positive economic impact of mild weather in January took its toll on the County's economic performance in February as temperatures returned to normal. January's stronger performance included some buying forward that reduced sales and some other business activity in February as seen in a slowing of the Coincident Index following its 4.09 percent increase in January. Still, the economy's underlying conditions remained strong as reflected in continuing tightening of the labor market, gains in consumer confidence, and strong auto sales. As a result, the Leading Index registered its second strong monthly gain in three months.

CURRENT CONDITIONS

February's slowdown in the County economy reflects normal seasonal patterns that were deepened by January's unusually warm weather. Where January's economic performance was stronger than normal, as reflected in the Coincident Index gaining 4.09 percent, the County's February economic performance was weaker with the Coincident Index declining 1.79 percent. While this weaker performance in February can be partially explained by the weather, February's economic performance is normally weaker than January's performance as it benefits from post-holiday sales and three extra shopping days.

Underlying February's performance is a positive economic trend that dates back 39 consecutive months. From its low point in February 2003, the Index is up 26.4 percent and is up 2.86 percent from February 2006. Consequently, February's economic slowdown should not be interpreted as a trend but rather as one month in a long-term pattern that is still pointing to further expansion. It is interesting to note that the same three coincident indicators that declined in February 2007 also declined in February 2006.

Growth in the County's employment base, consumer confidence and retail sales provides the principal measures of its economic vitality. While these indicators exhibited some weakness in February due to seasonal factors, when compared to their levels in February 2006 each reflects healthy gains for the year. The County economy supported job growth of 2.26 percent adding 14,488 net new jobs, retail sales were up 7.3 percent, and consumer confidence (in the present) was up 0.2 percent. While consumer confidence was only



Source: Center for Regional Analysis, George Mason University

marginally higher for the year, it was already high (152.0) a year ago and had lost and gained back more than 20 percent points over the year as gasoline prices rose and fell between late spring to early fall in 2006.

More impressive has been the gains in consumer expectations that had significantly lagged consumer confidence in the present. Compared to February 2006, consumer expectations were up 10.4 percent reversing a downward trend that had the potential for undermining consumer sales of so-called “big ticket” purchases such as automobiles, home furnishings, appliances and houses. With continuing gains in employment and consumer spending, the outlook for the Fairfax County economy appears to be good going into the spring months.

NEAR-TERM OUTLOOK

The Fairfax County Leading Index has registered six consecutive monthly over-the-year increases and a strong monthly gain in February. This performance points to the economic expansion continuing at least through the end of the year. Still, there are indications that the pace of the expansion is slowing both nationally and locally.

At the national level, economic growth rates have been slowing since the first quarter of 2006 with estimates for the first quarter 2007 performance to drop below 2 percent. Overall, economic growth in 2007 is expected to be the

slowest since 2002. The projection for 2008, which is still expected to experience stronger growth than in 2007, has been recently downgraded. The forces dampening the national growth—reduced new residential construction, higher oil prices, reduced business investment spending, and growing consumer debt burdens that may reduce consumer spending—are also impacting the Washington area and Fairfax County economies. Compounding these negative economic conditions in the local economy has been a deceleration in the growth of federal procurement spending beginning in 2005.

Fortunately, the Washington area and Fairfax County economies are outperforming the national economy and have the economic strength that will enable them to absorb these negative conditions with less overall impact. In Fairfax County, residential construction is less important as an economic driver than in its neighboring counties and strong commercial construction spending in the County has substantially offset the slowdown in residential construction. While rising gasoline prices will impact retail sales, the County’s high household incomes will reduce the overall effect of these price increases on the local economy. Other indicators confirm the County’s economic health including increased auto sales and decreased unemployment as well as declining initial claims (layoffs) by local businesses. The spring spending surge should further clarify how the economy is being affected by these continuing threats.

Fairfax County, Virginia Economic Indicators Current and Previous Months

Economic Indicator	Estimates			Percent Change	
	Feb-07 Prelim.	Jan-07 Final	Feb-06 Final	Jan-07 to Feb-07	Feb-06 to Feb-07
Fairfax County Business Cycle Indicators					
Coincident Index (1996 = 100)	148.95	151.66	144.81	-1.79	2.86
Leading Index (1996 = 100)	124.37	121.92	122.68	2.01	1.38
Fairfax County Coincident Index Components					
Estimated Total Wage & Salary Employment (Seasonally Adjusted)	654,353	655,326	639,865	-0.15	2.26
<i>Estimated Total Wage & Salary Employment (Unadjusted)</i>	633,163	632,828	619,145	0.05	2.26
Transient Occupancy Tax (\$'000=1987, Smoothed, Seasonally Adjusted)	812	896	769	-9.42	5.56
<i>Transient Occupancy Tax (\$'000=Current, Smoothed Only)</i>	1,781	1,678	1,413	6.15	26.04
Sales Tax Receipts (\$'000=1987, Seasonally Adjusted)	9,393	10,391	8,754	-9.61	7.30
<i>Sales Tax Receipts (\$'000=Current, Unadjusted)</i>	11,531	11,889	10,950	-3.01	5.31
South Atlantic Consumer Confidence	152.3	145.7	152.0	4.53	0.20
Fairfax County Leading Index Components					
New Automobile Registrations (Seasonally Adjusted)	6,666	4,533	5,727	47.05	16.41
<i>Automobile Registrations (Unadjusted)</i>	5,321	4,070	4,571	30.74	16.41
Initial Unemployment Claims (Seasonally Adjusted)	905	959	810	-5.61	11.79
<i>Initial Unemployment Claims (Unadjusted)</i>	967	1,289	865	-24.98	11.79
<i>Building Permits, Total Number of Units (Seasonally Adjusted)</i>	179	208	477	-13.87	-62.44
<i>Building Permits, Total Number of Units (Unadjusted)</i>	151	163	402	-7.36	-62.44
South Atlantic Consumer Expectations (Unadjusted)	116.5	103.7	105.5	12.34	10.43
Fairfax County Labor Force					
Total Labor Force (Seasonally Adjusted)	597,962	601,566	601,093	-0.60	-0.52
<i>Total Labor Force (Unadjusted)</i>	589,211	590,265	592,297	-0.18	-0.52
Employed Labor Force (Seasonally Adjusted)	585,809	588,884	588,183	-0.52	-0.40
<i>Employed Labor Force (Unadjusted)</i>	576,574	577,289	578,910	-0.12	-0.40
Unemployed Labor Force (Seasonally Adjusted)	12,152	12,682	12,911	-4.18	-5.87
<i>Unemployed Labor Force (Unadjusted)</i>	12,637	12,976	13,387	-2.61	-5.60
Unemployment Rate (Percent, Seasonally Adjusted)	2.0%	2.1%	2.1%	--	--
<i>Unemployment Rate (Percent, Unadjusted)</i>	2.1%	2.2%	2.3%	--	--

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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