

Fairfax County Economic Index

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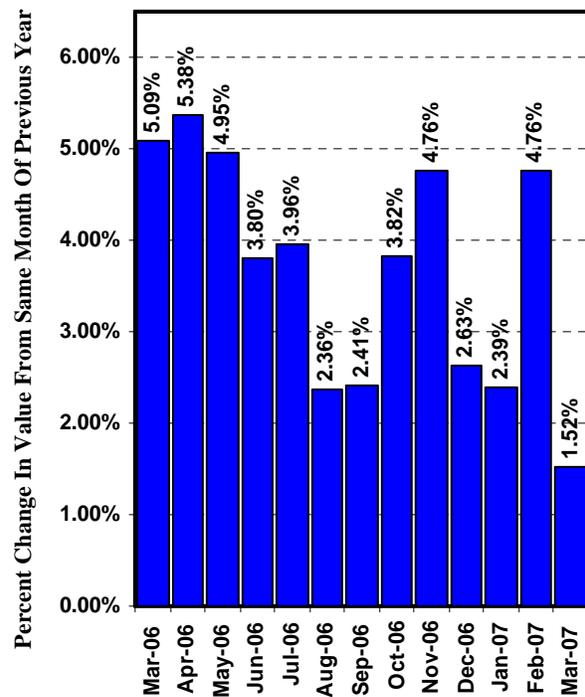
MAY 2007

County Economy Slows In March With Further Slowing Projected In Coming Months

The **Fairfax County Coincident Index**, which represents the current state of the County's economy, decreased to 151.49 in March for a decline of 0.14 percent. This small decline follows gains in January and February. On a monthly over-the-year basis, the Coincident Index continued to track higher gaining 1.52 percent from March 2006 extending its monthly over-the-year gain to a fortieth consecutive month. Still, this monthly over-the-year gain was the smallest since November 2003. In March, three of the Index's four indicators were negative.

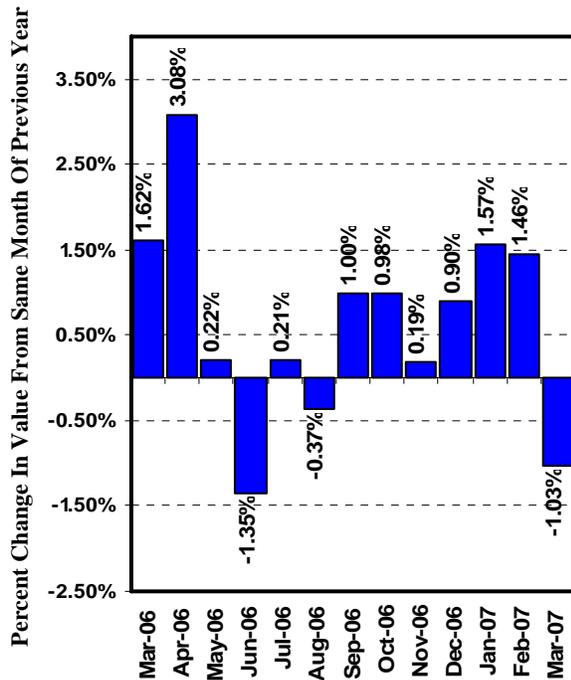
- Total employment declined in March for the fourth time in five months;
- Transient occupancy tax collections, adjusted for inflation and seasonal variation, was down after having increased in January and February; and,
- Consumer confidence (in the present) decreased for the third time in four months; while,
- Sales tax revenues, adjusted for inflation and seasonal variation, rebounded from their sharp decline in February and have now been higher in two of the year's first three months.

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 120.08 in March for a decline of 3.52 percent. The Index's decrease is the second in three months and brought the Index lower on a monthly over-the-year basis. Compared to March 2006, the Leading Index was down 1.03 percent following gains for six consecutive months. Since turning positive 46 months ago, the Leading Index has been up in 40 months and down in six months. In March, all four leading indicators contributed to its decrease.

- Automobile registrations were down sharply in March after experiencing a strong gain in February;
- Consumer expectations (consumer confidence six months hence) decreased sharply in March more than offsetting February's gain;

Initial claims for unemployment insurance increased (worsened) on a seasonally adjusted basis for the second time in three months; and,

- Residential building permits were down (sharply) for the third time in four months.

Fairfax County's economy slowed slightly in March showing signs of conditions that at the national level have brought the economy's first quarter growth to its lowest rate since 2002. While the economy's performance in March nearly duplicated its highest all-time level (achieved in February), slower job growth and weaker consumer confidence threaten future consumer spending that has been so essential in driving the growth trend over the expansion.

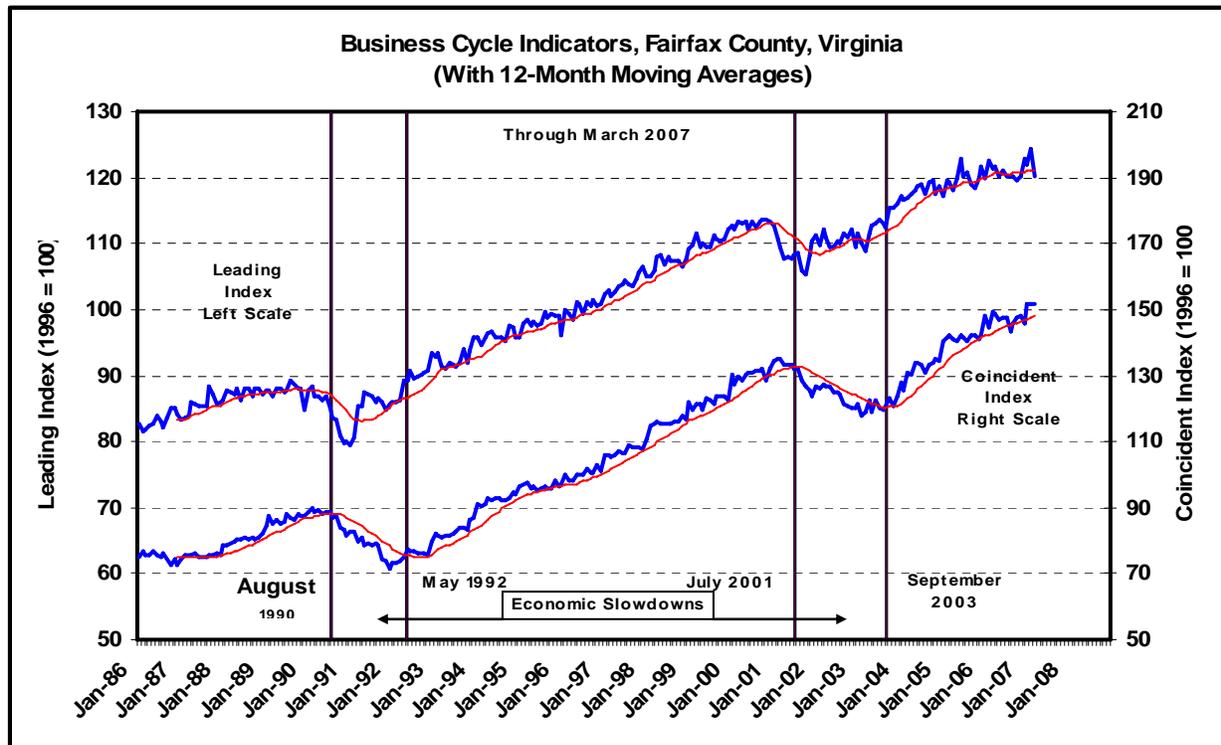
If the performance of the Leading Index in March is indicative of the expected trend over the coming months, the local economy is in for a period of slower growth. With the residential sector still struggling and consumer spending threatened by increased gasoline prices and sliding consumer confidence, the projected outlook will be led by a slowdown in consumer spending.

CURRENT CONDITIONS

The signs of slower growth are evident in the March performance of the Fairfax County economy. The marginal decline in the Coincident Index may be of greater consequence than its magnitude would otherwise suggest. Since August, the County's economy has registered sound gains experiencing only one month (December) in which the Index declined. Still, over this period, these monthly gains have been smaller than their respective same-month gains in 2006. The Index's monthly over-the-year increase in March was the smallest since late in 2003. This growth trend is consistent with a maturing business cycle.

This moderation in the County's growth rate has been negatively impacted by factors that at the national level have reduced the GDP growth rate by more than a full percentage point. These factors—the dramatic slowdown in new residential construction spending and the almost 50 percent price increase in gasoline prices—are also operating in Fairfax County. That the County's economy has not been more greatly impacted by these negative forces is a good measure of its underlying strength. Still, these forces are sapping the economy's strength and the early signs of the consequences are evident in March data.

Slower job growth in February and March suggest that businesses are being cautious about



Source: Center for Regional Analysis, George Mason University

their expenses and are carefully managing their workforce so as not to get caught with excess capacity. Fairfax County's labor market conditions in March reflected this management strategy. Initial claims for unemployment insurance were up (worsened) for the second time in three months and were 20.7 percent higher than a year ago. And, seasonally adjusted unemployment, which remains low at 2.0 percent, was unchanged from February and just 0.1 percentage point lower than in March 2006. The labor market remains tight in Fairfax County but it has weakened slightly from February.

NEAR-TERM OUTLOOK

The Leading Index in March is pointing to slower growth over the remainder of 2007. Slower consumer spending and reduced new residential construction outlays are the key factors contributing to the economy's current weakness.

The slowdown in residential construction continues to negatively impact the economy. With building permits (seasonally adjusted) down 68 percent from February and more importantly off 33 percent from March 2006, it is clear that

this slowdown will be a continuing constraint to economic growth for at least several more months. This is an inventory problem that will be self-correcting over time. With new construction largely halted, the inventory will not be experiencing significant additions so inventory drawdown will be a function of sales. Weaker consumer confidence could lengthen the time it takes to bring excess inventories into equilibrium pushing the economy's re-acceleration back into the late fall or even next year.

Consumer spending also is being impacted by the rapid rise in gasoline prices. As happened in the second and third quarters last year, this \$0.90 price increase at the pumps has diverted retail spending from local merchants and in many cases has forced consumers to cut back significantly on their discretionary spending. This has not been a problem yet in Fairfax County as evidenced in its higher retail sales in March. Still, sales in March 2007 and March 2006 were roughly the same. While retail sales will not be as vulnerable in Fairfax County due to its above-average household incomes than already evidenced nationally, they are likely to soften over the summer and further weaken the economy's overall performance in the second quarter.

Fairfax County, Virginia Economic Indicators Current and Previous Months

Economic Indicator	Estimates			Percent Change	
	Mar-07 Prelim.	Feb-07 Final	Mar-06 Final	Feb-07 to Mar-07	Mar-06 to Mar-07
Fairfax County Business Cycle Indicators					
Coincident Index (1996 = 100)	151.49	151.70	149.22	-0.14	1.52
Leading Index (1996 = 100)	120.08	124.47	121.33	-3.52	-1.03
Fairfax County Coincident Index Components					
Estimated Total Wage & Salary Employment (Seasonally Adjusted)	653,997	654,353	638,375	-0.05	2.45
<i>Estimated Total Wage & Salary Employment (Unadjusted)</i>	638,799	633,163	623,541	0.89	2.45
Transient Occupancy Tax (\$'000=1987, Smoothed, Seasonally Adjusted)	899	917	898	-1.94	0.09
<i>Transient Occupancy Tax (\$'000=Current, Smoothed Only)</i>	1,839	1,781	1,736	3.26	5.94
Sales Tax Receipts (\$'000=1987, Seasonally Adjusted)	9,842	9,208	9,828	6.88	0.14
<i>Sales Tax Receipts (\$'000=Current, Unadjusted)</i>	13,307	11,531	12,979	15.40	2.53
South Atlantic Consumer Confidence	150.9	154.6	154.5	-2.39	-2.33
Fairfax County Leading Index Components					
New Automobile Registrations (Seasonally Adjusted)	4,891	6,666	7,288	-26.64	-32.89
<i>Automobile Registrations (Unadjusted)</i>	4,929	5,321	7,345	-7.37	-32.89
Initial Unemployment Claims (Seasonally Adjusted)	941	905	779	3.93	20.72
<i>Initial Unemployment Claims (Unadjusted)</i>	973	967	806	0.62	20.72
Building Permits, Total Number of Units (Seasonally Adjusted)	57	179	100	-68.41	-43.09
Building Permits, Total Number of Units (Unadjusted)	70	151	123	-53.64	-43.09
South Atlantic Consumer Expectations (Unadjusted)	94.5	118.1	99.5	-19.98	-5.03
Fairfax County Labor Force					
Total Labor Force (Seasonally Adjusted)	600,078	597,962	586,689	0.35	2.28
<i>Total Labor Force (Unadjusted)</i>	594,410	589,211	581,148	0.88	2.28
Employed Labor Force (Seasonally Adjusted)	587,852	585,809	574,414	0.35	2.34
<i>Employed Labor Force (Unadjusted)</i>	582,209	576,574	568,900	0.98	2.34
Unemployed Labor Force (Seasonally Adjusted)	12,225	12,152	12,275	0.60	-0.40
<i>Unemployed Labor Force (Unadjusted)</i>	12,201	12,637	13,296	-3.45	-8.24
Unemployment Rate (Percent, Seasonally Adjusted)	2.0%	2.0%	2.1%	--	--
<i>Unemployment Rate (Percent, Unadjusted)</i>	2.1%	2.1%	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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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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