

Fairfax County Economic Index

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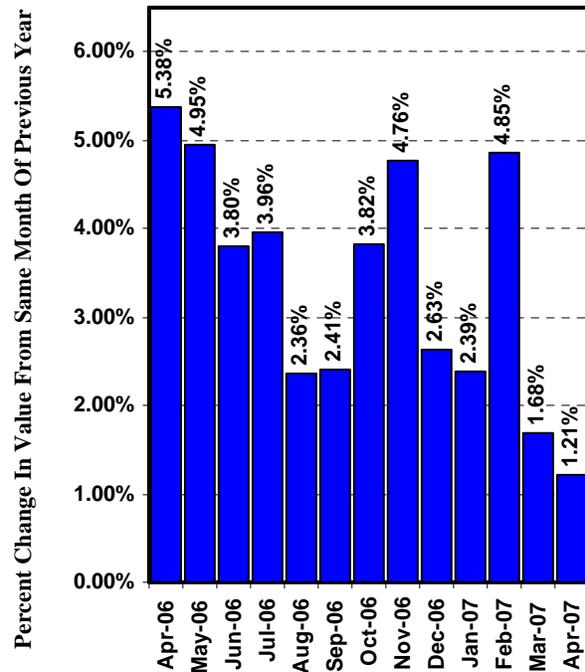
JUNE 2007

County Economy Slows Further In April Outlook Brightens Slightly

The **Fairfax County Coincident Index**, which represents the current state of the County's economy, decreased to 150.46 in April for a decline of 0.84 percent. This decline extends the current slowdown to a second month. However, on a monthly over-the-year basis, the Coincident Index continued to track higher gaining 1.21 percent from April 2006 and extended its monthly over-the-year gain to a forty-first consecutive month. April's monthly over-the-year gain was the smallest since November 2003. In April, three of the Index's four indicators were negative.

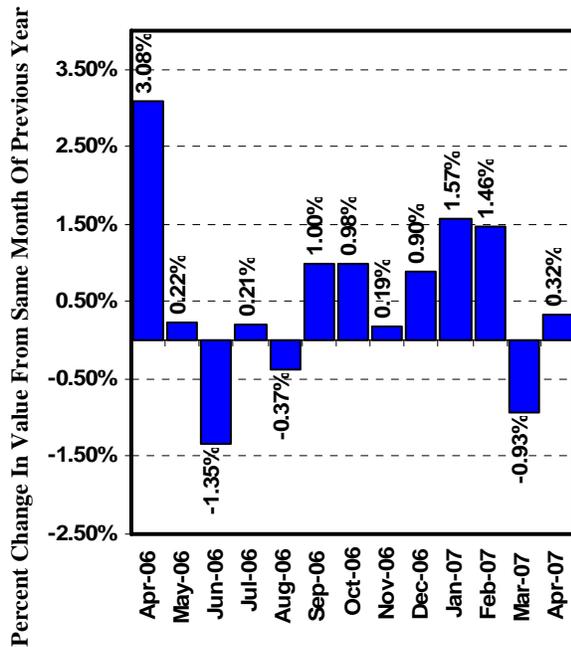
- Transient occupancy tax collections, adjusted for inflation and seasonal variation, was down for a second month;
- Consumer confidence (in the present) decreased for the fourth time in five months; and,
- Sales tax revenues, adjusted for inflation and seasonal variation, fell for the second time in three months; while,
- Total employment increased in April following two negative 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, increased to 122.18 in April for a gain of 1.64 percent. The Leading Index has now increased in February and April while declining in January and March. Compared to April 2006, the Leading Index was also higher gaining 0.32 percent. Since turning positive 47 months ago, the Leading Index has been up in 41 months and down in six months. In April, three of the Index's four indicators contributed to its increase.

- Automobile registrations were up slightly in April after experiencing a sharp decline in March;
- Consumer expectations (consumer confidence six months hence) increased in April following a steep decline in March; and,
- Residential building permits were up sharply following two negative months; while,
- Initial claims for unemployment insurance increased (worsened) on a seasonally adjusted basis for the third time in four months.

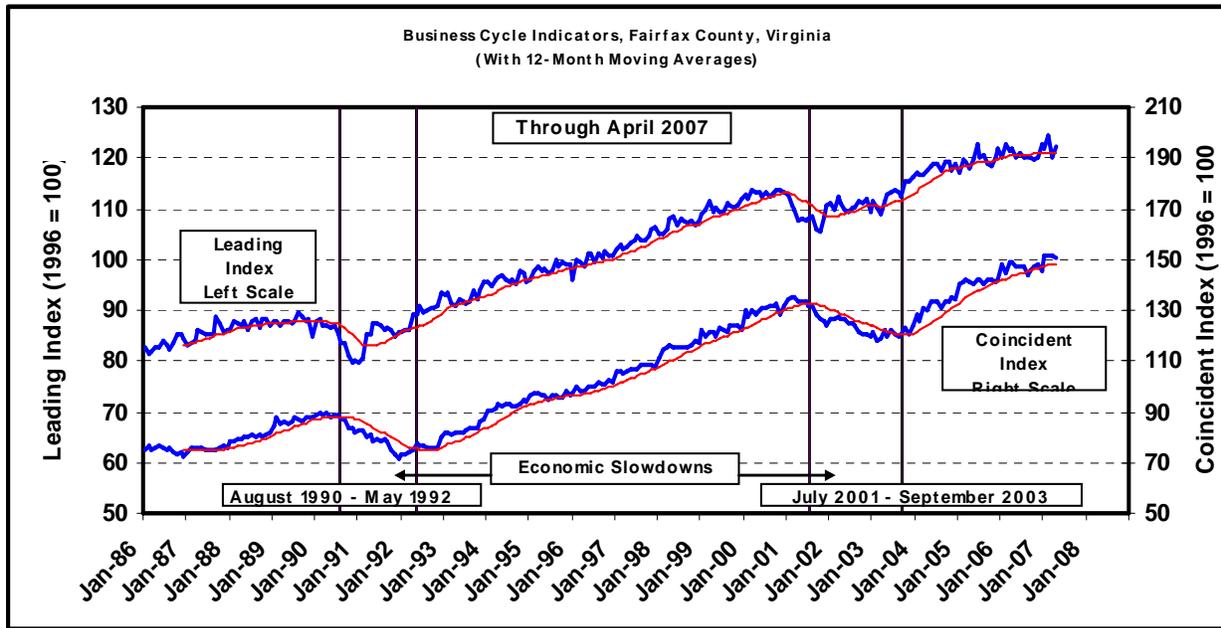
Fairfax County's economy slowed further in April reflecting slower consumer spending in re-

sponse to rising gasoline prices and declining consumer confidence. The continuing weakness in the housing market has lowered the economy's growth rate locally and nationally. Still, the economy generated new jobs and unemployment declined suggesting that April's sluggishness is only temporary. Additionally, the near-term outlook for the County's economy looked brighter as the Leading Index moved higher following its decline in March. In spite of April's mixed performance, there are signs that the economy's weak first quarter will regain strength in the second quarter.

CURRENT CONDITIONS

Consumer spending slowed in April for two primary reasons. The rapid increase in gasoline prices and lower consumer confidence appear to have taken their toll on retail sales in April. However, the calendar may have had greater influence. With five Saturdays in March and pre-Easter sales and shopping occurring in March, too, its strong retail performance may have come at the expense of April's consumer spending. If this is the case, then the concern that consumers were finally cutting back and that their impact on the economy was in decline were ill founded. The difference between an accelerating economy and a struggling one is consumer spending. If consumers can get past the high cost of gasoline and their other anxieties and resume the spending spree that has kept the economy afloat for the past four years, then the prospects are good for the remainder of the year.

Early signs that the County's economy is poised for faster growth can be found in April's data. The most important is the resumption of month-to-month job growth and the continued upward trend in job generation. From April to April, the County's economy added an estimated 16,920 net new jobs for a gain of 2.65 percent. Furthermore, the number of Fairfax County residents holding jobs (anywhere) increased by 12,804 persons or 2.23 percent. As a result, the number of unemployed residents declined and the unemployment rate fell from a low of 2.2 to 2.1 percent on a seasonally unadjusted basis. More persons working in Fairfax County means local businesses are growing and, with more residents holding jobs, the residents of Fairfax County will have greater disposable income. More business and more resident income point to an economy that is in a growth mode and not one that is slowing down.



Source: Center for Regional Analysis, George Mason University

The problems plaguing the County's economy are not substantially different from those operating on the national economy: the slowdown in the housing sector and increasing energy costs. Both of these are "inventory" problems that are self-correcting over time. As the excess inventory of unsold houses is taken down, the industry will normalize. This process is largely complete in Fairfax County. Similarly, as gasoline supplies increase in response to higher profits, prices will moderate. This began to happen in May. As the negative consequences of these problems abate, the County's economy will grow faster fueled by more confident consumers with more money to spend.

Inflation remains an issue that could threaten the economy's performance. With consumer price increases exceeding the guidelines set by the Federal Reserve Board and wage inflation being driven by low unemployment rates, the likelihood of an interest rate decrease this year has all but disappeared. In fact, interest rates on home mortgages have risen to their highest level in a year and loan requirements have been tightened. The current interest rate environment is less accommodating than it was last year and could act to slow growth just as it begins to accelerate this summer.

NEAR-TERM OUTLOOK

The Leading Index has moved higher since the third quarter of 2006 and continues to point to

moderate growth in 2008. The pattern is also reflected in national data that show the economy re-accelerating during the second quarter with each successive quarter experiencing stronger growth over the coming year. The assumptions underlying this forecast are that the housing market will stabilize over the next several months (no later than March 2008) and that energy costs will stop rising and even moderate slightly over the summer before declining in the fall.

Consumer expectations rose in April and have been trending higher since last summer suggesting that consumers will continue to be a positive force in the economy. Residential building permits have moved higher. This is the first step in restarting residential construction. However, this will not happen in great numbers until the inventory of unsold homes decreases significantly. The good news is that the inventory of re-sale housing has shrunk compared to the same month last year for each month March through May. This is a sure sign that the inventory correction needed for market normalization is underway. Auto sales rose in April. Auto registrations have been higher in four of the last six months.

These signs along with the strengthening regional and national economies suggest that the worst (quarter) is over and the economy's growth rate will increase over the year and sustain job and income growth at healthy rates into 2008.

Fairfax County, Virginia Economic Indicators Current and Previous Months

Economic Indicator	Estimates			Percent Change	
	Apr-07 Prelim.	Mar-07 Final	Apr-06 Final	Mar-07 to Apr-07	Apr-06 to Apr-07
Fairfax County Business Cycle Indicators					
Coincident Index (1996 = 100)	150.46	151.73	148.66	-0.84	1.21
Leading Index (1996 = 100)	122.18	120.21	121.78	1.64	0.32
Fairfax County Coincident Index Components					
Estimated Total Wage & Salary Employment (Seasonally Adjusted)	655,151	654,478	638,233	0.10	2.65
<i>Estimated Total Wage & Salary Employment (Unadjusted)</i>	642,211	639,269	625,628	0.46	2.65
Transient Occupancy Tax (\$'000=1987, Smoothed, Seasonally Adjusted)	891	899	883	-0.95	0.86
<i>Transient Occupancy Tax (\$'000=Current, Smoothed Only)</i>	1,677	1,839	1,575	-8.81	6.48
Sales Tax Receipts (\$'000=1987, Seasonally Adjusted)	9,567	9,842	9,454	-2.79	1.20
<i>Sales Tax Receipts (\$'000=Current, Unadjusted)</i>	13,078	13,307	12,728	-1.72	2.75
South Atlantic Consumer Confidence	142.7	152.7	156.9	-6.55	-9.05
Fairfax County Leading Index Components					
New Automobile Registrations (Seasonally Adjusted)	5,179	4,891	5,540	5.89	-6.53
<i>Automobile Registrations (Unadjusted)</i>	5,012	4,929	5,362	1.68	-6.53
Initial Unemployment Claims (Seasonally Adjusted)	956	941	752	1.58	27.06
<i>Initial Unemployment Claims (Unadjusted)</i>	939	973	739	-3.49	27.06
Building Permits, Total Number of Units (Seasonally Adjusted)	169	57	153	198.29	10.18
Building Permits, Total Number of Units (Unadjusted)	184	70	167	162.86	10.18
South Atlantic Consumer Expectations (Unadjusted)	97.4	96.2	105.4	1.25	-7.59
Fairfax County Labor Force					
Total Labor Force (Seasonally Adjusted)	600,060	600,078	587,184	0.00	2.19
<i>Total Labor Force (Unadjusted)</i>	593,909	594,410	581,165	-0.08	2.19
Employed Labor Force (Seasonally Adjusted)	586,862	587,852	574,058	-0.17	2.23
<i>Employed Labor Force (Unadjusted)</i>	581,788	582,209	569,095	-0.07	2.23
Unemployed Labor Force (Seasonally Adjusted)	13,199	12,225	13,126	7.96	0.55
<i>Unemployed Labor Force (Unadjusted)</i>	12,121	12,201	12,070	-0.66	0.42
Unemployment Rate (Percent, Seasonally Adjusted)	2.2%	2.0%	2.2%	--	--
<i>Unemployment Rate (Percent, Unadjusted)</i>	2.0%	2.1%	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.

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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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