

Fairfax County Economic Index

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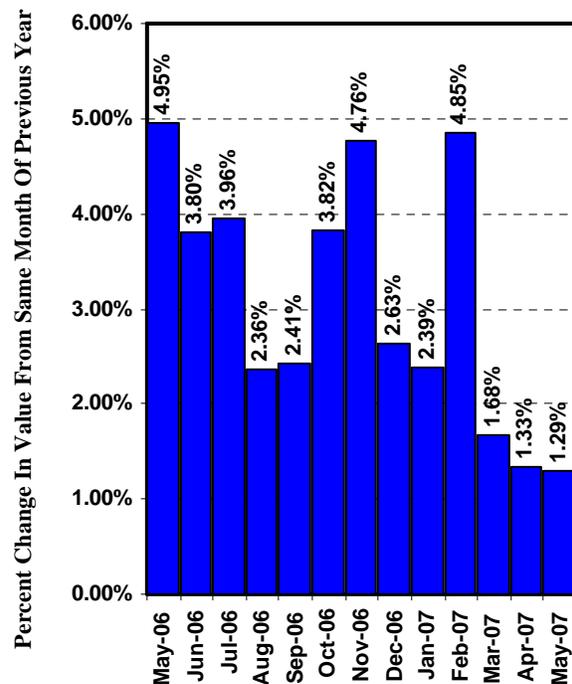
JULY 2007

County Economy Weaker in May But Rebound Is Projected in Second Half of Year

The **Fairfax County Coincident Index**, which represents the current state of the County's economy, decreased to 148.97 in May for a decline of 1.11 percent. This decline extends the current slowdown to a third month. However, on a monthly over-the-year basis, the Coincident Index continued to track higher gaining 1.29 percent from May 2006 and extended its monthly over-the-year gain to a forty-second consecutive month. May's monthly over-the-year gain was the smallest since November 2003. In May, two of the Index's four indicators were negative.

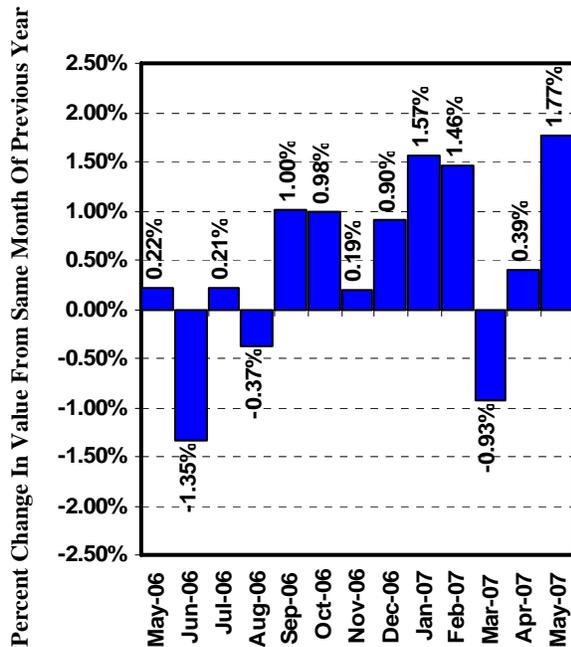
- Total employment growth slowed in May for the third time in four months; and,
- Transient occupancy tax collections, adjusted for inflation and seasonal variation, were down for a third month in a row; while,
- Consumer confidence (in the present) was higher following two monthly declines; and,
- Sales tax revenues, adjusted for inflation and seasonal variation, registered their strongest increase in four 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 slightly to 122.28 in May for a gain of 0.01 percent. The Leading Index has registered gains in three of the last four months. Compared to May 2006, the Leading Index was also higher gaining 1.77 percent. Since turning positive 48 months ago, the Leading Index has been up in 42 months and down in 6 months. In May, two of the Index's four indicators contributed to its increase.

- Automobile registrations were up for a second month but are still lower for the year; and,
- Residential building permits were up for a second month following their sharp gain in April; while,
- Consumer expectations (consumer confidence six months hence) fell for the second time in three months; and,
- Initial claims for unemployment insurance increased (worsened) on a seasonally adjusted basis for the fourth time in five months.

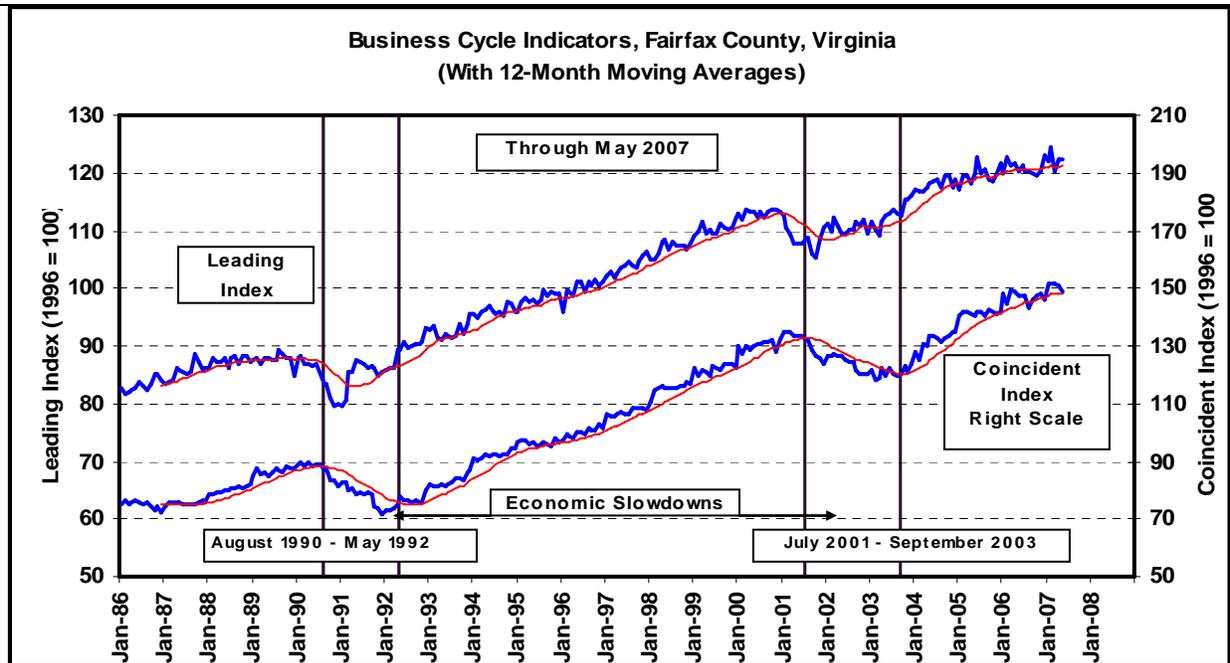
Fairfax County's economy slowed further in May extending this lull to a third month reflecting the continuing negative impacts of higher gasoline prices and slower residential construction compounded by a weaker real estate market. This slowdown may also reflect the continuing slower growth in federal contracting activity that had propelled the County's economy to its strong performances in recent years. Still, the short-term and near-term growth trends remain positive and as the inventory problems that have been dampening growth normalize, the County's underlying economic strength will result in strong growth in the third and fourth quarters. The Leading Index's monthly over-the-year increases in eight of the last nine months provides a clear signal pointing

CURRENT CONDITIONS

The weakness shown in the Coincident Index over the last three months reflects the consequences of weaker consumer spending and continuing adjustments in the housing market that have negatively impacted the County, region and nation for more than a year. Consumer spending has helped to sustain strong economic growth for more than four years and, as in all business cycles, tends to weaken as debt burdens rise and as the business cycle ages. Consumer spending has proven to be more resilient this time around but has shown some recent weakness in response to higher energy costs and growing anxiety over a range of national and local issues (such as declining housing values or higher taxes).

The slowdown in the local tourist industry can be partially attributed to higher gasoline costs that cut into auto-oriented vacation trips. Businesses have been concerned, too, about lower revenue and earnings forecasts and some have tightened their control of expenditures including business travel. With fewer home sales, furniture and appliance sales and home decorating outlays have also slowed.

None of these conditions are expected to persist over the remainder of the year. While local consumer spending has shown some recent gains—auto sales are up two months in a row and retail sales tax collections were strong in May—



Source: Center for Regional Analysis, George Mason University

with consumer confidence slipping and expected to decline further over the summer, consumer spending may continue to lag. However, with the residential real estate market expected to strengthen in the fall; gasoline prices falling with the end of the summer driving season; and the normal increase in retail spending in August and September; the outlook remains positive for the remainder of the year.

Reinforcing these positive and largely seasonal trends in consumer spending is the expected increase in federal procurement spending that occurs in the third quarter and tends to stimulate the County's economy over the subsequent six months or longer. This increase in federal spending may be larger than normal, as the federal budget was not approved until the end of May, eight months into the fiscal year. The slower federal spending during this year's extended budget approval process that may have slowed the County's economic growth earlier in the year could now help stimulate its growth over the remainder of the calendar year and into 2008. This, along with improved real estate market conditions, should increase job growth from its current 15,000 annual average level. Still, with the County's unemployment rate dropping to 2 percent in May, the shortage of qualified workers will make even sustaining, let alone increasing, the County's economic growth rate challenging.

NEAR-TERM OUTLOOK

Even though the month-to-month increase in the Leading Index was only marginal in May, its continuing upward trend is clearly positive. This is seen in the Index's steady gains relative to same-month levels in 2006. The recent growth in auto sales and residential building permits are well-established signs of future economic growth.

The Fairfax County economy has not faltered. It has only slowed down from its rapid growth rate that it has sustained for four years. And, this slowdown is largely explained by "inventory" issues that will correct in time. This is certainly the case for both the oil price increase that has diverted consumer spending away from normal retail outlays to gasoline purchases and the housing market that had become overvalued and supplied. While the slower federal procurement spending is not going to revert back to its immediate post-9/11 levels, it is expected to experience a bounce following the interruption to contracting activity that resulted from the extended federal budget approval process this year.

With the correction of the "inventory" problems and the improved economic conditions projected locally, regional and nationally over the remainder of this year and into 2008, the Fairfax County economy should sustain a positive long-term growth rate.

Fairfax County, Virginia Economic Indicators Current and Previous Months

Economic Indicator	Estimates			Percent Change	
	May-07 Prelim.	Apr-07 Final	May-06 Final	Apr-07 to May-07	May-06 to May-07
Fairfax County Business Cycle Indicators					
Coincident Index (1996 = 100)	148.97	150.65	147.08	-1.11	1.29
Leading Index (1996 = 100)	122.28	122.26	120.16	0.01	1.77
Fairfax County Coincident Index Components					
Estimated Total Wage & Salary Employment (Seasonally Adjusted)	652,220	655,151	637,335	-0.45	2.34
<i>Estimated Total Wage & Salary Employment (Unadjusted)</i>	646,094	642,211	631,349	0.60	2.34
Transient Occupancy Tax (\$'000=1987, Smoothed, Seasonally Adjusted)	798	893	839	-10.66	-4.89
<i>Transient Occupancy Tax (\$'000=Current, Smoothed Only)</i>	1,565	1,677	1,571	-6.68	-0.36
Sales Tax Receipts (\$'000=1987, Seasonally Adjusted)	10,650	9,588	9,206	11.08	15.68
<i>Sales Tax Receipts (\$'000=Current, Unadjusted)</i>	15,132	13,078	13,047	15.71	15.98
South Atlantic Consumer Confidence	147.8	143.9	156.1	2.71	-5.32
Fairfax County Leading Index Components					
New Automobile Registrations (Seasonally Adjusted)	5,279	5,179	5,553	1.93	-4.95
<i>Automobile Registrations (Unadjusted)</i>	5,552	5,012	5,841	10.77	-4.95
Initial Unemployment Claims (Seasonally Adjusted)	974	956	882	1.94	10.45
<i>Initial Unemployment Claims (Unadjusted)</i>	930	939	842	-0.96	10.45
<i>Building Permits, Total Number of Units (Seasonally Adjusted)</i>	170	169	130	0.68	31.25
Building Permits, Total Number of Units (Unadjusted)	168	184	128	-8.70	31.25
South Atlantic Consumer Expectations (Unadjusted)	96.4	98.5	94.0	-2.13	2.55
Fairfax County Labor Force					
Total Labor Force (Seasonally Adjusted)	597,639	600,060	586,510	-0.40	1.90
<i>Total Labor Force (Unadjusted)</i>	596,898	593,909	585,782	0.50	1.90
Employed Labor Force (Seasonally Adjusted)	585,936	586,862	574,452	-0.16	2.00
<i>Employed Labor Force (Unadjusted)</i>	584,934	581,788	573,470	0.54	2.00
Unemployed Labor Force (Seasonally Adjusted)	11,704	13,199	12,058	-11.33	-2.93
<i>Unemployed Labor Force (Unadjusted)</i>	11,964	12,121	12,312	-1.30	-2.83
Unemployment Rate (Percent, Seasonally Adjusted)	2.0%	2.2%	2.1%	--	--
<i>Unemployment Rate (Percent, Unadjusted)</i>	2.0%	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.

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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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