

Fairfax County Economic Index

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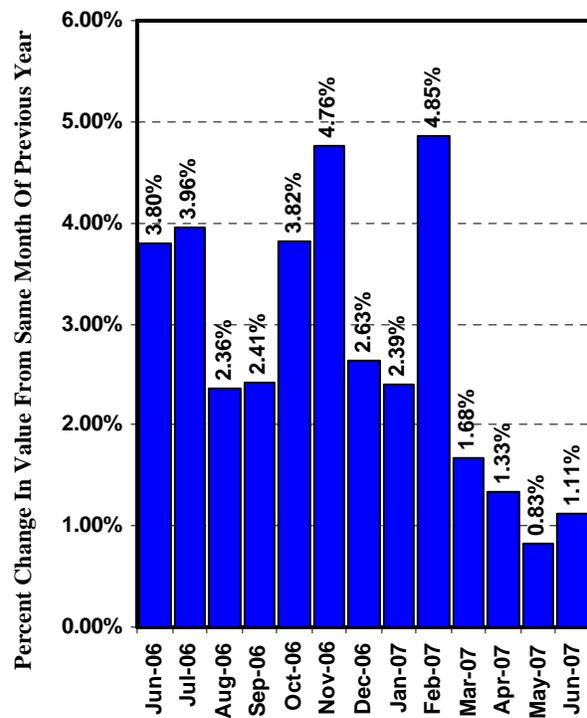
AUGUST 2007

County Economy Up in June Outlook for Second Half of Year Good

The **Fairfax County Coincident Index**, which represents the current state of the County's economy, increased to 149.12 in June for a gain of 0.55 percent. This monthly increase follows three consecutive monthly declines. On a monthly over-the-year basis, the Coincident Index continued to track higher gaining 1.11 percent from June 2006 and extended its monthly over-the-year gain to a forty-third consecutive month. In June, just one of the Index's four indicators accounted for its positive performance.

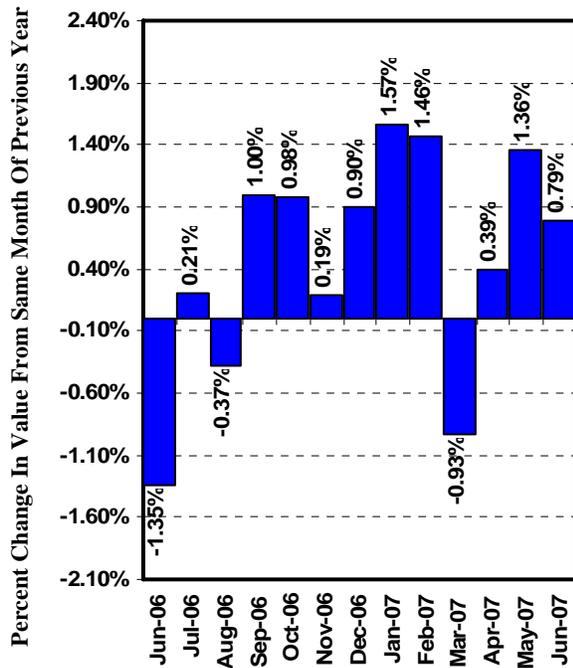
- Transient occupancy tax collections, adjusted for inflation and seasonal variation, were sharply higher following three monthly declines; while,
- Total employment growth slowed in June for the fourth time in five months;
- Consumer confidence (in the present) fell for the third time in four months; and,
- Sales tax revenues, adjusted for inflation and seasonal variation, declined for the second time in 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, increased to 122.08 in June for a gain of 0.25 percent. While the Leading Index has registered gains in alternating months this year it continues to track higher through the year's first six months. On a monthly over-the-year basis, the Leading Index was up 0.79 percent from June 2006. Since turning positive 49 months ago, the Leading Index has been up in 43 months and down in 6 months. In June, two of the Index's four indicators contributed to its increase.

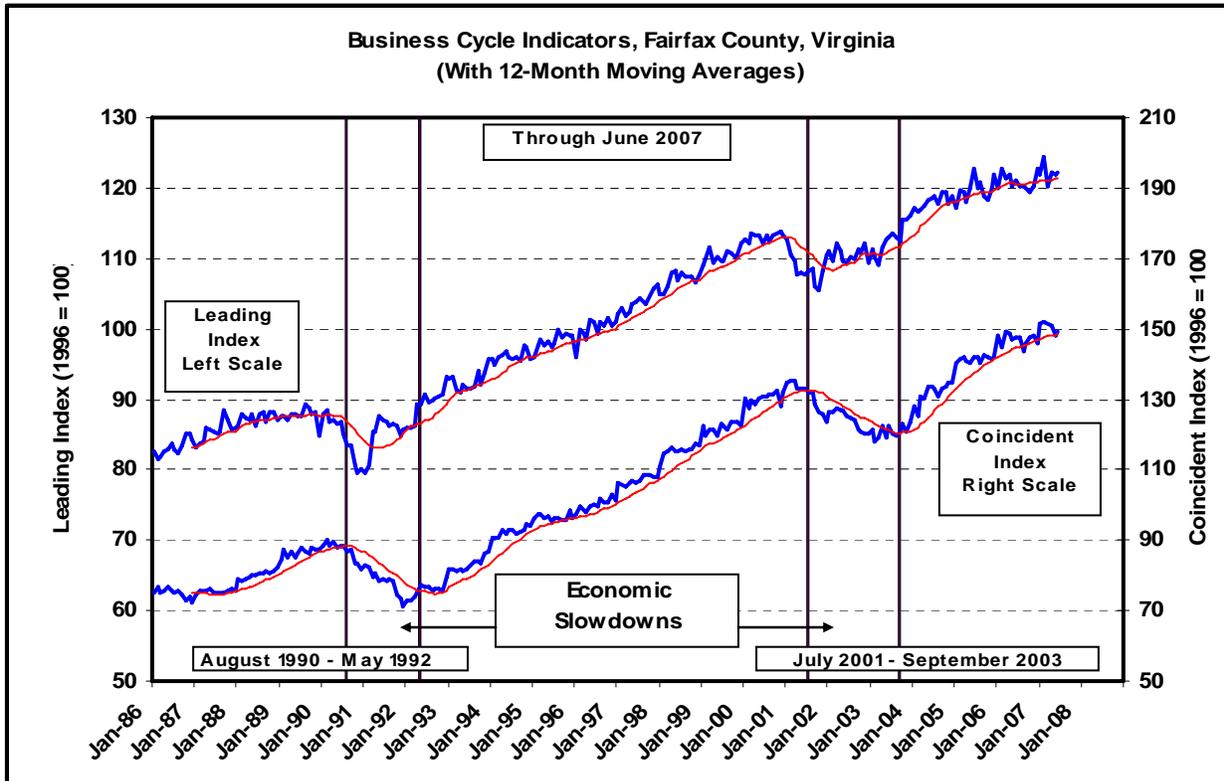
- Automobile registrations were up for a third consecutive month and are also up for the year; and,
- Initial claims for unemployment insurance decreased (improved) on a seasonally adjusted basis for the first time since February; while,
- Consumer expectations (consumer confidence six months hence) were unchanged from May although they have been trending lower since January; and,
- Residential building permits declined following gains in April and May.

Fairfax County's economy strengthened slightly in June following three months in which it had drifted lower in response to weaker consumer spending in the face of rising gasoline prices and growing anxiety concerning the continuing slowdown in the residential real estate market and its impacts on the financial markets. While these concerns that have undercut consumer confidence have not abated, the economy's underlying strength appears to be compensating for some of the negative consequences as seen in higher automobile sales and positive labor market conditions. Even though the County's economy struggled during the spring months it has tracked higher over the year's first half and its outlook for the rest of the year remains good.

CURRENT CONDITIONS

The performance of the Fairfax County economy in March, April and May was dampened by higher gasoline prices and continuing concerns regarding the slowdown in the residential real estate market that have raised consumer anxiety and resulted in shifting spending patterns. The consequences of this slowdown are seen in slower employment growth and weaker retail sales. Both of these problems have extended into June and could continue over the remainder of the summer. Higher gasoline prices and declining consumer confidence challenged the County's economy over the middle two quarters in 2006 and as prices moderated following the summer driving season and consumers adjusted to their lingering concerns, the economy rebounded in the fall. This pattern may repeat itself this year although the instability experienced in the nation's financial markets in recent weeks could deepen consumers' fears and extend the slowdown into next year.

How well the Fairfax County economy weathers these challenges will determine the degree to which it rebounds in the coming months. The fundamentals supporting the economy's continuing growth remain sound. Job growth (2.2%), low unemployment (2.1%), and decreased initial unemployment claims (-1.4%) all point to a growing economy in which the availability of qualified workers remains the major challenge. While job growth in the County has slowed compared to previous years, the County added almost 14,000 net



Source: Center for Regional Analysis, George Mason University

new jobs over the past twelve months accounting for 30 percent of the Washington region's gain. This slower rate of gain is consistent with an aging business cycle and the moderation in federal procurement spending starting in 2005 following the post-9/11 ramp up that drove the expansion's early years.

With the economy's continued expansion, its job and income growth will provide the spending potential that will support the economy's further growth once consumer confidence stabilizes and moves higher. Rather than an income problem, the slowdown in consumer spending in Fairfax County is more of an attitudinal problem that can quickly change. If gasoline prices retreat in September and the financial markets stabilize, retail spending should quickly rebound. However, if these problems persist through the fall, it is likely the economy will continue to perform below forecast.

NEAR-TERM OUTLOOK

As soon as consumers regain their comfort level with the economy (business investors, too), the underlying strength of the County's economy will be reflected in higher growth rates. The fore-

cast for the remainder of this year was built on the expectation that the negative conditions that slowed its growth in the spring would be neutral by the end of the summer and the economy would strengthen over the last quarter and accelerate into 2008. This pattern is still expected although it may be pushed back with the economy's re-acceleration deferred until the end of the year and the deferred gains being captured in 2008.

The Leading Index continues to provide an unambiguous signal; that is, the County's economic expansion will continue over the next year albeit at a slower long-term rate than during the expansion's early years. The business cycle is in its fifth year and as it matures it will continue to experience imbalances and distortions that were generated during its earlier years. With pent up demand largely satisfied, future consumer demand will be driven by job and income growth. The good news is that the Washington region and Fairfax County have economies that are among the strongest in the nation and have lower cyclical sensitivity due to their specialization in government services. As a result, they are better able to weather turbulence (e.g., in the financial markets) and out-perform the national economy during slowdowns.

Fairfax County, Virginia Economic Indicators Current and Previous Months

Economic Indicator	Estimates			Percent Change	
	Jun-07 Prelim.	May-07 Final	Jun-06 Final	May-07 to Jun-07	Jun-06 to Jun-07
Fairfax County Business Cycle Indicators					
Coincident Index (1996 = 100)	149.12	148.30	147.48	0.55	1.11
Leading Index (1996 = 100)	122.08	121.78	121.13	0.25	0.79
Fairfax County Coincident Index Components					
Estimated Total Wage & Salary Employment (Seasonally Adjusted)	649,022	652,220	635,204	-0.49	2.18
<i>Estimated Total Wage & Salary Employment (Unadjusted)</i>	652,413	646,094	638,524	0.98	2.18
Transient Occupancy Tax (\$'000=1987, Smoothed, Seasonally Adjusted)	895	798	898	12.24	-0.30
<i>Transient Occupancy Tax (\$'000=Current, Smoothed Only)</i>	1,802	1,565	1,737	15.14	3.77
Sales Tax Receipts (\$'000=1987, Seasonally Adjusted)	9,253	9,851	9,268	-6.08	-0.17
<i>Sales Tax Receipts (\$'000=Current, Unadjusted)</i>	13,928	13,998	14,035	-0.50	-0.76
South Atlantic Consumer Confidence	140.9	148.2	146.6	-4.93	-3.89
Fairfax County Leading Index Components					
New Automobile Registrations (Seasonally Adjusted)	6,522	5,279	6,350	23.56	2.71
<i>Automobile Registrations (Unadjusted)</i>	7,345	5,552	7,151	32.29	2.71
Initial Unemployment Claims (Seasonally Adjusted)	961	974	887	-1.41	8.27
<i>Initial Unemployment Claims (Unadjusted)</i>	903	930	834	-2.90	8.27
<i>Building Permits, Total Number of Units (Seasonally Adjusted)</i>	109	170	161	-36.01	-32.45
Building Permits, Total Number of Units (Unadjusted)	127	168	188	-24.40	-32.45
South Atlantic Consumer Expectations (Unadjusted)	90.0	90.0	93.9	0.00	-4.15
Fairfax County Labor Force					
Total Labor Force (Seasonally Adjusted)	599,236	597,639	587,841	0.27	1.94
<i>Total Labor Force (Unadjusted)</i>	602,770	596,898	591,308	0.98	1.94
Employed Labor Force (Seasonally Adjusted)	586,837	585,936	575,004	0.15	2.06
<i>Employed Labor Force (Unadjusted)</i>	588,881	584,934	577,007	0.67	2.06
Unemployed Labor Force (Seasonally Adjusted)	12,399	11,704	12,837	5.94	-3.41
<i>Unemployed Labor Force (Unadjusted)</i>	13,889	11,964	14,301	16.09	-2.88
Unemployment Rate (Percent, Seasonally Adjusted)	2.1%	2.0%	2.2%	--	--
<i>Unemployment Rate (Percent, Unadjusted)</i>	2.3%	2.0%	2.4%	--	--

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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