



# Fairfax County Economic Index

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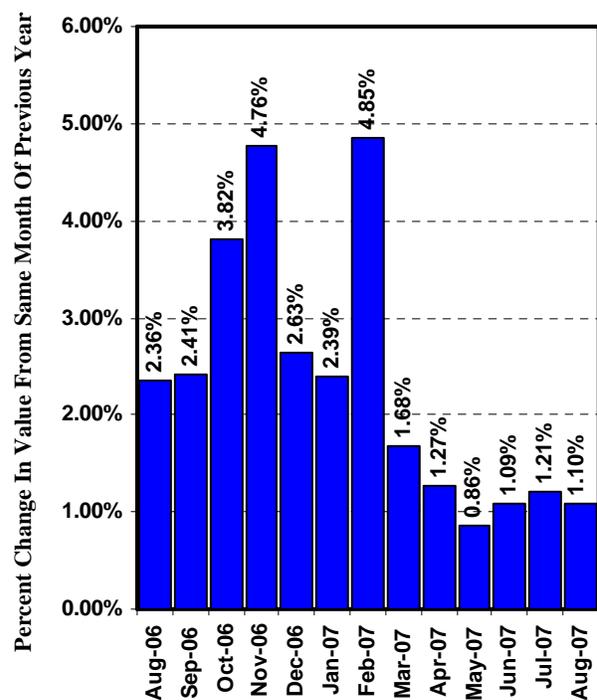
OCTOBER 2007

## County Economy Slows Further in August And This Trend Appears Likely To Continue

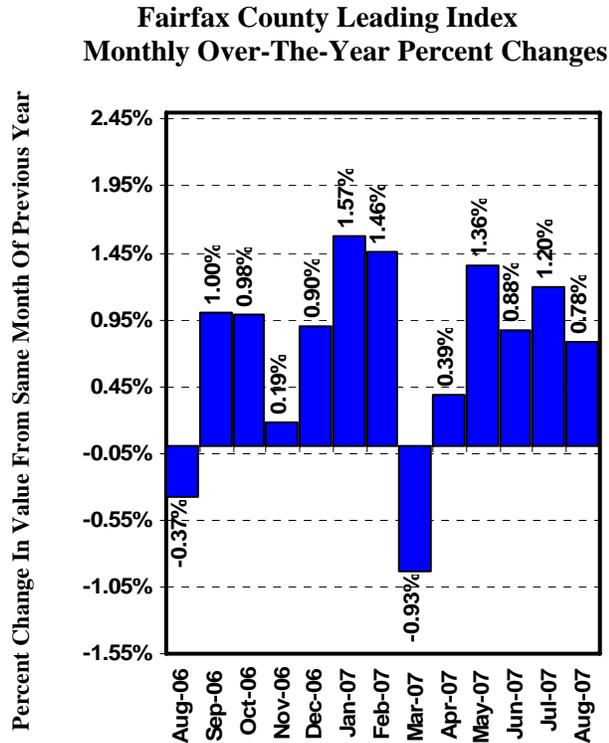
The **Fairfax County Coincident Index**, which represents the current state of the County's economy, decreased to 145.04 in August for a loss of 2.74 percent. This monthly decline follows gains in June and July. Still, on a monthly over-the-year basis, the Coincident Index continued to track higher gaining 1.10 percent from August 2006 and extended its monthly over-the-year gain to a forty-fifth consecutive month. In August, two of the Index's four indicators accounted for its decline.

- Consumer confidence (in the present) decreased in August for the second time in three months; and,
- Transient occupancy tax collections, adjusted for inflation and seasonal variation, declined for the fifth time in six months; while,
- Sales tax revenues, adjusted for inflation and seasonal variation, were up for a second month; and,
- Total employment growth registered a small increase after declining for three months.

**Fairfax County Coincident Index  
Monthly Over-The-Year Percent Changes**



Source: Center for Regional Analysis, George Mason University



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 121.16 in August for a loss of 0.50 percent. The Leading Index now has declined on a month-to-month basis in three of the last four months. Still, on a monthly over-the-year basis, the Leading Index was higher by 0.78 percent than in August 2006. Since turning positive 51 months ago, the Leading Index has been up in 45 months and down in 6 months. In August, three of the Index's four indicators contributed to its decrease.

- Automobile registrations fell for the second month;
- Initial claims for unemployment insurance increased (worsened) on a seasonally adjusted basis and now have been higher in five of the last six months; and,
- Consumer expectations (consumer confidence six months hence) fell following two monthly gains; while,
- Residential building permits were higher for the fourth time in five months.

Fairfax County's economy slowed further in August reflecting the continuing negative effects of the slower residential real estate market and high gasoline prices. These effects have dampened job growth but have not had a major impact on consumer spending. Most worrisome is the slowly increasing number of newly unemployed persons (initial claims are up 17.4 percent from August 2006), although unemployment remains low at 2.2 percent.

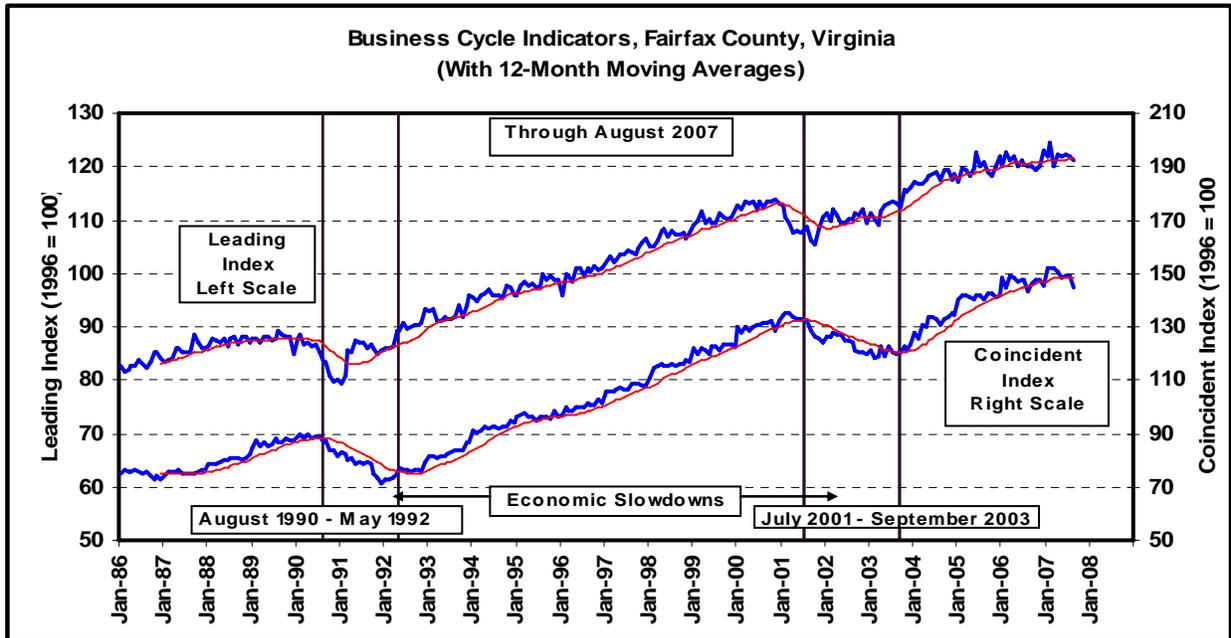
The Leading Index, while down in three of the last four months, remains higher than its same-month level in 2006 suggesting that while the County's economy is slowing, it is not moving towards an actual decline. Current conditions are pointing to this slowdown continuing to the end of the year and possibly extending into 2008.

## CURRENT CONDITIONS

The Fairfax County economy has experienced a slowdown spanning at least a quarter in its long expansion dating from 2003. This slowdown is likely to continue to the end of the year and possibly into early 2008. Key indicators of this slowdown are seen in the slower growth of new jobs, the increases in initial claims for unemployment insurance (newly laid off workers), and weaker consumer confidence.

While the County's estimated job growth since August 2006 remains a respectable 12,920 for a 2 percent gain, job growth over the summer months has stalled. Employment in August was the same as in July and in July it was less than in June (all on a seasonally adjusted basis). This standstill in job growth reflects gains in professional services offset by losses in construction and financial services linked to the area's weak residential real estate market.

As many of the County's job losses are occurring among self-employed persons and part-time workers that are not included in the employment survey reported above, it is impossible to know the exact magnitude of changes occurring in the work force. One timely measure is provided by the monthly initial claims for unemployment insurance. These have grown in six of the year's first eight months (January-August) and in August 2007 they exceeded the initial claims count in August 2006 by 17.4 percent. While this only repre-



Source: Center for Regional Analysis, George Mason University

sents an increase from 917 to 1,077 claims, it does provide a clear indication that businesses in the County are cutting back on their workers. As these numbers are small, they have not had a noticeable impact on the County's unemployment rate that remained steady at 2.2 percent in August. Still, the pattern is clear. Compared to last year, new job growth is off by approximately 25 percent and initial claims are up by 17 percent.

Consumers on the other hand continue to spend. Retail sales increased in August from July by 3.3 percent adjusted for inflation following a normal seasonal pattern and are up 2.4 percent (inflation adjusted) from August 2006. While these gains are not as strong as registered in recent years, consumer spending is still growing at a time when consumer confidence has retreated from its July peak and gasoline prices have not experienced a significant decline.

With gasoline prices expected to stay higher than last year over the fall and with heating oil and natural gas prices also expected to be higher, consumer spending can be expected to moderate further over the remainder of the year. Slower job growth and higher energy costs and continuing consumer anxiety regarding housing values and financial conditions will sap strength from the retail and hospitality sectors. This helps to explain this year's weaker tourist spending in the County as seen in decreased transient occupancy tax col-

lections and may also be felt by restaurants and other entertainment outlets as residents shift their spending patterns to accommodate higher energy costs.

## NEAR-TERM OUTLOOK

The Leading Index has declined on a month-to-month basis in four of the last six months but is still higher than it was in August 2006. This short-term weakness in the Leading Index points to slower growth in the County's economy over the coming six months.

The Leading Index's longer-term positive trend suggests that as the negative conditions that have dampened the economy's performance (increased energy costs and the weaker housing market) are reversed, the fundamental conditions supporting the economy's growth will fuel its re-acceleration. This re-acceleration is not likely to occur in 2007 but rather in the spring of 2008. There are signs that housing values may be stabilizing in Fairfax County as average re-sale prices have increased compared to same-month levels in 2006; however, the median price has continued to lag the previous year. The inventory of homes for sale is no longer growing so sales are outpacing new listings. Still, the inventory remains large and the full correction will require time.

Given the likelihood of higher energy prices over the winter and the slow recovery expected in the residential real estate market, the economy's performance in 2008 could easily lag current projections.

## Fairfax County, Virginia Economic Indicators Current and Previous Months

Economic Indicator	Estimates			Percent Change	
	Aug-07 Prelim.	Jul-07 Final	Aug-06 Final	Jul-07 to Aug-07	Aug-06 to Aug-07
<b>Fairfax County Business Cycle Indicators</b>					
Coincident Index (1996 = 100)	145.04	149.13	143.47	-2.74	1.10
Leading Index (1996 = 100)	121.16	121.76	120.21	-0.50	0.78
<b>Fairfax County Coincident Index Components</b>					
Estimated Total Wage & Salary Employment (Seasonally Adjusted)	644,079	643,919	631,159	0.02	2.05
<i>Estimated Total Wage &amp; Salary Employment (Unadjusted)</i>	643,378	643,770	630,472	-0.06	2.05
Transient Occupancy Tax (\$'000=1987, Smoothed, Seasonally Adjusted)	758	883	783	-14.19	-3.26
<i>Transient Occupancy Tax (\$'000=Current, Smoothed Only)</i>	1,565	1,646	1,549	-4.92	1.06
Sales Tax Receipts (\$'000=1987, Seasonally Adjusted)	9,625	9,319	9,395	3.29	2.45
<i>Sales Tax Receipts (\$'000=Current, Unadjusted)</i>	12,987	12,897	12,917	0.70	0.54
South Atlantic Consumer Confidence	141.0	152.9	140.8	-7.78	0.14
<b>Fairfax County Leading Index Components</b>					
New Automobile Registrations (Seasonally Adjusted)	4,528	4,766	6,637	-5.00	-31.78
<i>Automobile Registrations (Unadjusted)</i>	5,081	5,353	7,448	-5.08	-31.78
Initial Unemployment Claims (Seasonally Adjusted)	1,157	1,045	985	10.74	17.45
<i>Initial Unemployment Claims (Unadjusted)</i>	1,077	1,060	917	1.60	17.45
Building Permits, Total Number of Units (Seasonally Adjusted)	155	119	122	30.67	27.74
Building Permits, Total Number of Units (Unadjusted)	175	135	137	29.63	27.74
South Atlantic Consumer Expectations (Unadjusted)	93.4	101.3	87.3	-7.80	6.99
<b>Fairfax County Labor Force</b>					
Total Labor Force (Seasonally Adjusted)	593,550	595,230	587,346	-0.28	1.06
<i>Total Labor Force (Unadjusted)</i>	599,217	606,556	592,954	-1.21	1.06
Employed Labor Force (Seasonally Adjusted)	581,459	582,176	574,517	-0.12	1.21
<i>Employed Labor Force (Unadjusted)</i>	586,048	593,170	579,051	-1.20	1.21
Unemployed Labor Force (Seasonally Adjusted)	12,090	13,053	12,829	-7.38	-5.76
<i>Unemployed Labor Force (Unadjusted)</i>	13,169	13,386	13,903	-1.62	-5.28
Unemployment Rate (Percent, Seasonally Adjusted)	2.0%	2.2%	2.2%	--	--
<i>Unemployment Rate (Percent, Unadjusted)</i>	2.2%	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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*We are on the web at:*  
[www.co.fairfax.va.us/comm/  
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