

# Fairfax County Economic Index

VOLUME XI, NUMBER 6

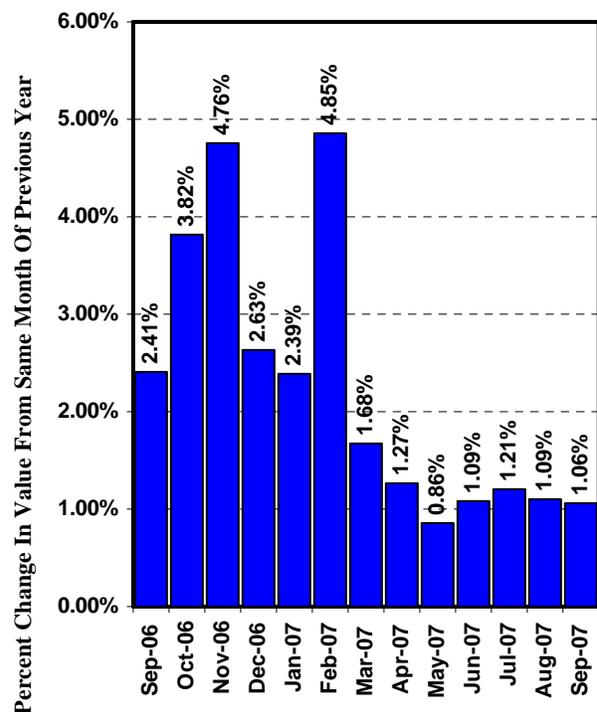
NOVEMBER 2007

## County Economy Still Slow in September Outlook Slowly Improving

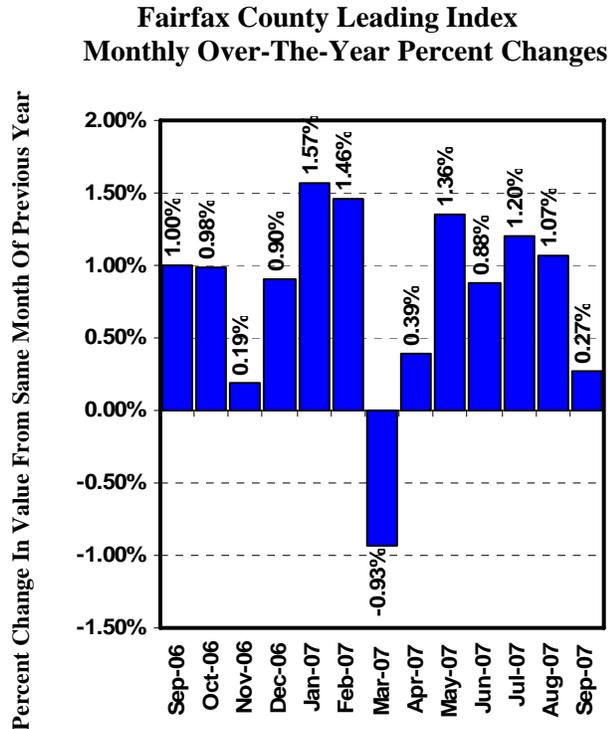
The **Fairfax County Coincident Index**, which represents the current state of the County's economy, increased to 147.36 in September for a gain of 1.60 percent. This was the Index's third monthly increase in four months and, on a monthly over-the-year basis, the Coincident Index continues to track higher gaining 1.06 percent from September 2006. September's increase extends the Index's monthly over-the-year gain to a forty-sixth consecutive month. September's month-to-month gain occurred in spite of declines in three of the Index's four indicators.

- Transient occupancy tax collections, adjusted for inflation and seasonal variation, were higher following declines in July and August; while,
- Total employment growth recorded a very slight decrease and now has declined in four of the last five months;
- Consumer confidence (in the present) decreased in September for the third time in four months; and,
- Sales tax revenues, adjusted for inflation and seasonal variation, fell in September following two monthly increases.

**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 120.39 in September for a loss of 0.91 percent. The Leading Index now has declined on a month-to-month basis for three months in a row. Still, on a monthly over-the-year basis, the Leading Index was higher by 0.27 percent than in September 2006. Since turning positive 52 months ago, the Leading Index has been up in 46 months and down in 6 months. In September, three of the Index's four indicators contributed to its decrease.

- Automobile registrations fell for the third consecutive month;
- Consumer expectations (consumer confidence six months hence) fell for a second month; and,
- Residential building permits declined after increasing in July and August; while,
- Initial claims for unemployment insurance decreased (improved) on a seasonally adjusted basis after growing in July and August.

Fairfax County's economy continues to feel the effects of negative national economic conditions—rising energy costs, continuing turbulence in the

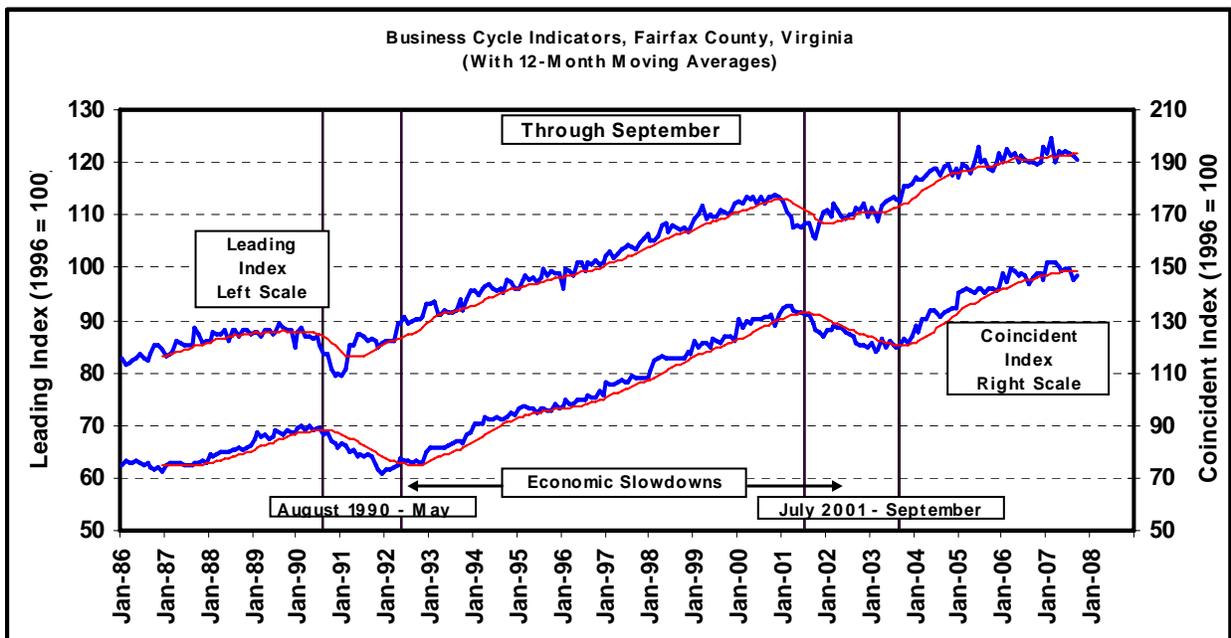
financial markets and the slowdown in residential construction spending. These negative conditions have dampened the County's economic performance over the past six months and will likely be a factor in the economy's outlook extending into mid-2008. The consequences of slower growth are apparent in slower employment growth and weaker consumer spending.

The month-to-month decline in the Leading Index confirms this weaker near-term outlook. Still, the County's economy remains strong and is expected to re-accelerate more quickly than the regional and national economy as energy prices retreat early next year and the housing market normalizes.

## CURRENT CONDITIONS

The Fairfax County economy is showing the stress of continuing negative national economic forces that have worsened over the summer months and are likely to continue to negatively impact the County's economy well into next year. Rising gasoline and other energy prices and the continuing uncertainty in the financial markets have affected the County's economy in two important and interrelated ways. Higher energy costs are reducing the discretionary spending potential of consumers and the uncertainty in the financial markets is making consumers nervous. The effects are seen in weaker retail spending and declining consumer confidence. The continuing turbulence in the financial markets is also slowing the recovery of the housing market as potential buyers are more hesitant to take on added debt burdens and may also have more difficulty qualifying for conventional mortgages.

Consumer spending is key to the market's performance over the next six months. Retail spending, as measured by sales tax collections, fell 5.3 percent in September (on a seasonally adjusted basis) and sales were off by 4.1 percent from September 2006. Automobile registrations (sales) were down 16.2 percent from August to September and 23.6 percent from September 2006. Consumer confidence in both the present and future (expectations) has declined for two months. The news about falling housing prices has made consumers even more anxious. This reduction in consumer spending is taking a



Source: Center for Regional Analysis, George Mason University

toll on the local economy. Job growth has been slowing since the beginning of the year, although is still up an estimated 2.2 percent since September 2007. The number of residents who have jobs continues to rise and the unemployment rate continues to fall. The tightening of the labor market could help explain the slowing growth of new jobs; that is, there are not enough qualified workers to fill the vacancies. While this is a real constraint to future growth as the business cycle matures, the short-term threat to the local economy is the over reaction to the national energy, real estate and sub-prime mortgage market problems. The Fairfax County economy is sufficiently strong to sustain growth while it is adjusting to these temporary shifts in consumer spending and the slowdown in residential construction outlays. Where the magnitude of these problems will be sufficiently large in many other counties to undermine their economies, in Fairfax County they will only dampen growth and the duration of these negative effects will be much shorter. This will be seen in slower retail spending over the holiday shopping season with resultant impacts on seasonal hiring. Further slowing of employment growth and some increase unemployment is likely.

## NEAR-TERM OUTLOOK

The Leading Index has declined on a month-to-month basis six times this year through September

and including the last three months. Still, the Leading Index is tracking higher than in 2006 pointing to continued but moderating growth over the coming nine months. Local economic conditions are favorable for continued growth but this potential for growth will be impacted by the negative national conditions that have already slowed the economy's expansion in 2007.

The forecast for the national economy is for the slowest rate of growth in the 4<sup>th</sup> quarter of 2007 and 1<sup>st</sup> quarter of 2008 since 2002. Following this six-month period of slow growth, the economy will gradually accelerate with 2009 achieving the strongest gain since 2006. Whether this pattern of re-acceleration is achieved will depend largely on the timing of the housing market recovery.

For Fairfax County, with its inventory of unsold housing already showing signs of decline with concomitant sales price stabilization, the local economy should show clear signs of acceleration in March or April of 2008. The timing of this re-acceleration will be influenced by energy costs that are expected to moderate over the late winter months. As energy costs moderate and the housing market normalizes, the Fairfax County economy can be expected to return to its projected growth path. However, between now and then, the County's economy is expected to under-perform its potential resulting in decreasing consumer spending and slower job growth.

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

Economic Indicator	Estimates			Percent Change	
	Sep-07 Prelim.	Aug-07 Final	Sep-06 Final	Aug-07 to Sep-07	Sep-06 to Sep-07
<b>Fairfax County Business Cycle Indicators</b>					
Coincident Index (1996 = 100)	147.36	145.04	145.81	1.60	1.06
Leading Index (1996 = 100)	120.39	121.50	120.07	-0.91	0.27
<b>Fairfax County Coincident Index Components</b>					
Estimated Total Wage & Salary Employment (Seasonally Adjusted)	644,138	644,678	630,348	-0.08	2.19
<i>Estimated Total Wage &amp; Salary Employment (Unadjusted)</i>	646,747	643,976	632,901	0.43	2.19
Transient Occupancy Tax (\$'000=1987, Smoothed, Seasonally Adjusted)	879	758	894	15.93	-1.71
<i>Transient Occupancy Tax (\$'000=Current, Smoothed Only)</i>	1,894	1,565	1,848	21.02	2.47
Sales Tax Receipts (\$'000=1987, Seasonally Adjusted)	9,031	9,539	9,413	-5.33	-4.06
<i>Sales Tax Receipts (\$'000=Current, Unadjusted)</i>	12,591	12,987	13,100	-3.05	-3.89
South Atlantic Consumer Confidence	137.3	140.8	136.6	-2.49	0.51
<b>Fairfax County Leading Index Components</b>					
New Automobile Registrations (Seasonally Adjusted)	3,794	4,528	4,968	-16.20	-23.62
<i>Automobile Registrations (Unadjusted)</i>	4,213	5,081	5,516	-17.08	-23.62
Initial Unemployment Claims (Seasonally Adjusted)	1,123	1,157	957	-2.94	17.38
<i>Initial Unemployment Claims (Unadjusted)</i>	939	1,077	800	-12.81	17.38
<i>Building Permits, Total Number of Units (Seasonally Adjusted)</i>	116	155	127	-25.12	-8.26
<i>Building Permits, Total Number of Units (Unadjusted)</i>	111	175	121	-36.57	-8.26
South Atlantic Consumer Expectations (Unadjusted)	93.3	98.0	93.8	-4.80	-0.53
<b>Fairfax County Labor Force</b>					
Total Labor Force (Seasonally Adjusted)	596,531	593,550	589,116	0.50	1.26
<i>Total Labor Force (Unadjusted)</i>	596,470	599,217	589,056	-0.46	1.26
Employed Labor Force (Seasonally Adjusted)	585,173	581,459	576,486	0.64	1.51
<i>Employed Labor Force (Unadjusted)</i>	584,808	586,048	576,127	-0.21	1.51
Unemployed Labor Force (Seasonally Adjusted)	11,358	12,090	12,630	-6.06	-10.07
<i>Unemployed Labor Force (Unadjusted)</i>	11,662	13,169	12,929	-11.44	-9.80
Unemployment Rate (Percent, Seasonally Adjusted)	1.9%	2.0%	2.1%	--	--
<i>Unemployment Rate (Percent, Unadjusted)</i>	2.0%	2.2%	2.2%	--	--

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.

Prepared by:  
Center for Regional Analysis  
George Mason University  
<http://cra.gmu.edu>

*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)

Inquiries should be directed to:

The Fairfax County  
Department of Management and Budget  
12000 Government Center Parkway, Suite  
561  
Fairfax, Virginia 22035-0074  
(703) 324-2391 or