



# Fairfax County Economic Index

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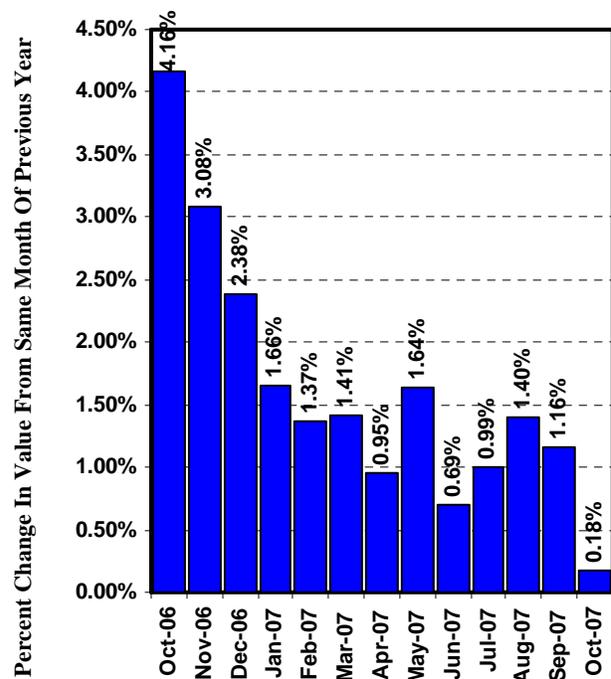
DECEMBER 2007

## County Economy Accelerates in October Slow Growth Projected for Early 2008

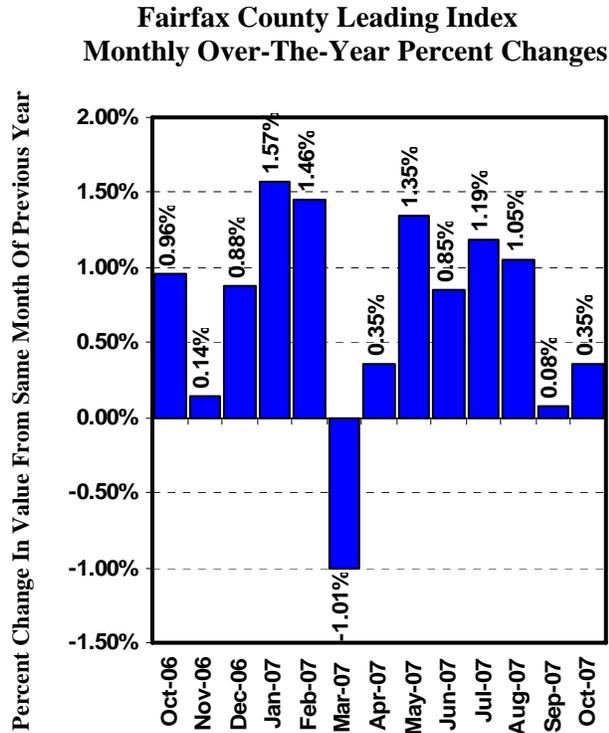
The **Fairfax County Coincident Index**, which represents the current state of the County's economy, increased to 145.64 in October for a gain of 1.09 percent. This was the Index's first monthly increase in four months. On a monthly over-the-year basis, the Coincident Index continues to track higher gaining 0.18 percent from October 2006. October's increase extends the Index's monthly over-the-year gain to a forty-seventh consecutive month. In October, two of the Index's four components were positive.

- Sales tax revenues, adjusted for inflation and seasonal variation, increased in October for the third time in four months; and,
- Total employment growth recorded a small increase following its small decline in September; while,
- Transient occupancy tax collections, adjusted for inflation and seasonal variation, declined in October following gains in August and September; and,
- Consumer confidence (in the present) decreased for the third consecutive month.

**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 119.95 in October for a loss of 0.20 percent. The Leading Index now has declined on a month-to-month basis for four months in a row. Still, on a monthly over-the-year basis, the Leading Index was 0.35 percent higher than in October 2006. Since turning positive 53 months ago, the Leading Index has been up in 47 months and down in 6 months. In October, three of the Index's four indicators contributed to its decrease.

- Consumer expectations (consumer confidence six months hence) fell for a third month;
- Residential building permits declined sharply for a second month; and,
- Initial claims for unemployment insurance increased (worsened) on a seasonally adjusted basis for the third time in four months; while,
- Automobile registrations were sharply higher following three monthly decreases.

The Fairfax County economy registered stronger gains in October following four months of slower growth. While higher energy prices and

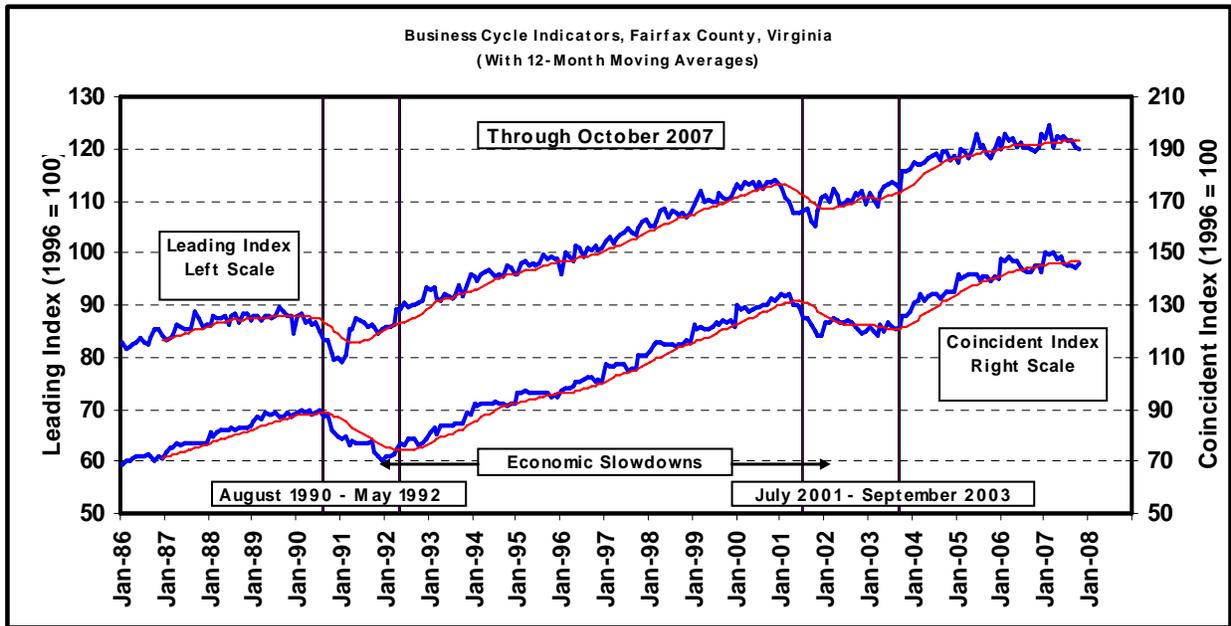
slower residential construction continued to be a drag on the economy's performance nationally and locally, the County's underlying economic strength helped to reverse its downward trend. Employment gains and increased consumer spending fueled October's positive performance. However, with the Leading Index registering its fourth consecutive month-to-month decline and pointing to slower future growth, the County's economy does not appear to be free from the problems responsible for its slowdown over the past year.

## CURRENT CONDITIONS

The Coincident Index, which measures the County's current economic performance, registered its smallest monthly over-the-year gain in October since the beginning of the expansion four year's ago, gaining only 0.18 percent from its October 2006 level. This marginal gain follows a year-long slowdown in the County's expansion that was precipitated by a decrease in new residential construction compounded by higher energy prices and deepened over the last six months by the sub-prime mortgage crisis and its widening effects on the financial markets. These problems have undermined consumer confidence and increased the probability that the national economy's growth rate could turn negative by the end of 2007 extending into the early months of 2008.

Against this backdrop of economic uncertainty, the Fairfax County economy has experienced signs of slowing. New residential building permits have declined in six of the last twelve months and were off sharply in September and October reflecting the combined effects of consumer uncertainty and stricter lending practices. In October, new residential building permits were down 47 percent from October 2006.

Consumer confidence continues to erode. In October, consumer confidence in the present and consumer expectations were both down 13 percent from their same-month levels in 2006. Lower confidence levels usually translate into weaker retail spending. In Fairfax County, retail spending has seesawed over the past year but on a seasonal and inflation adjusted basis registered a strong gain (27.6%) in October over September's level and are up 17 percent from October 2006. The economy's woes have been reflected in slower job growth and a weakening of the local labor market.



Source: Center for Regional Analysis, George Mason University

While October's estimated gain in payroll employment was up 2.1 percent from October 2006, on a month-to-month basis, payroll employment has been down marginally in eight times over the last twelve months. As a result of slower job growth, the County's very low unemployment rate has moved higher, increasing from 1.9 percent in October 2006 to 2.1 percent in October 2007 and initial claims for unemployment insurance are up 18 percent from October 2006 and have increased (worsened) eight times over the last twelve months.

These weaknesses in the County's economic performance are clearly indicative of its slowing expansion. However, they do not point to a declining economy but rather one that is struggling to sustain its four-year expansion under the burden of a substantial slowdown in the national economy.

## NEAR-TERM OUTLOOK

The Fairfax County Leading Index is clearly pointing to slower growth over the next nine to twelve months. This slower growth pattern parallels the national forecast. The national forecast suggests that the 4<sup>th</sup> quarter of 2007 and the 1<sup>st</sup> quarter of 2008 will be the weakest quarters and that each subsequent quarter in 2008 will be marginally stronger with 2009 having the strongest economic growth performance since 2006.

The most recent national estimate (December 2007) for the 4<sup>th</sup> quarter is for no growth with the 1<sup>st</sup> quarter of 2008 projected to increase just 0.8 percent. This is basically a stand still forecast for the national economy over this six-month period. If anything unexpected undermines the economy further during this period, it could be driven into negative territory. Global Insight has raised its December recession probability projection to 40 percent from 35 percent in November. However, beyond the 1<sup>st</sup> quarter, the economic outlook is projected to improve.

Fairfax County's inventory of unsold housing is showing signs of decline and should sale prices stabilize soon, the local economy could show clear signs of acceleration by mid-year. 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 reaccelerate into 2009. 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	
	Oct-07 Prelim.	Sep-07 Final	Oct-06 Final	Sep-07 to Oct-07	Oct-06 to Oct-07
<b>Fairfax County Business Cycle Indicators</b>					
Coincident Index (1996 = 100)	145.64	144.07	145.38	1.09	0.18
Leading Index (1996 = 100)	119.95	120.18	119.52	-0.20	0.35
<b>Fairfax County Coincident Index Components</b>					
Estimated Total Wage & Salary Employment (Seasonally Adjusted)	645,187	644,138	632,126	0.16	2.07
<i>Estimated Total Wage &amp; Salary Employment (Unadjusted)</i>	<i>648,065</i>	<i>646,747</i>	<i>634,946</i>	<i>0.20</i>	<i>2.07</i>
Transient Occupancy Tax (\$'000=1987, Seasonally Adjusted)	798	804	862	-0.79	-7.41
<i>Transient Occupancy Tax (\$'000=Current)</i>	<i>1,942</i>	<i>1,632</i>	<i>2,014</i>	<i>19.00</i>	<i>-3.60</i>
Sales Tax Receipts (\$'000=1987, Seasonally Adjusted)	11,523	9,031	9,836	27.59	17.15
<i>Sales Tax Receipts (\$'000=Current, Unadjusted)</i>	<i>15,603</i>	<i>12,591</i>	<i>12,987</i>	<i>23.92</i>	<i>20.14</i>
South Atlantic Consumer Confidence	130.1	136.5	149.4	-4.69	-12.92
<b>Fairfax County Leading Index Components</b>					
New Automobile Registrations (Seasonally Adjusted)	4,965	3,794	3,764	30.85	31.90
<i>Automobile Registrations (Unadjusted)</i>	<i>5,082</i>	<i>4,213</i>	<i>3,853</i>	<i>20.63</i>	<i>31.90</i>
Initial Unemployment Claims (Seasonally Adjusted)	1,126	1,123	953	0.23	18.08
<i>Initial Unemployment Claims (Unadjusted)</i>	<i>1,130</i>	<i>939</i>	<i>957</i>	<i>20.34</i>	<i>18.08</i>
Building Permits, Total Number of Units (Seasonally Adjusted)	66	116	124	-43.59	-47.24
<i>Building Permits, Total Number of Units (Unadjusted)</i>	<i>67</i>	<i>111</i>	<i>127</i>	<i>-39.64</i>	<i>-47.24</i>
South Atlantic Consumer Expectations	85.1	91.0	97.5	-6.48	-12.72
<b>Fairfax County Labor Force</b>					
Total Labor Force (Seasonally Adjusted)	594,374	596,531	587,723	-0.36	1.13
<i>Total Labor Force (Unadjusted)</i>	<i>597,156</i>	<i>596,470</i>	<i>590,474</i>	<i>0.12</i>	<i>1.13</i>
Employed Labor Force (Seasonally Adjusted)	581,225	585,173	575,601	-0.67	0.98
<i>Employed Labor Force (Unadjusted)</i>	<i>584,722</i>	<i>584,808</i>	<i>579,064</i>	<i>-0.01</i>	<i>0.98</i>
Unemployed Labor Force (Seasonally Adjusted)	13,149	11,358	12,122	15.77	8.47
<i>Unemployed Labor Force (Unadjusted)</i>	<i>12,434</i>	<i>11,662</i>	<i>11,410</i>	<i>6.62</i>	<i>8.97</i>
Unemployment Rate (Percent, Seasonally Adjusted)	2.2%	1.9%	2.1%	--	--
<i>Unemployment Rate (Percent, Unadjusted)</i>	<i>2.1%</i>	<i>2.0%</i>	<i>1.9%</i>	<i>--</i>	<i>--</i>

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. 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.

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*We are on the web at:*  
[www.co.fairfax.va.us/comm/  
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