

Fairfax County Economic Index

VOLUME XI, NUMBER 8

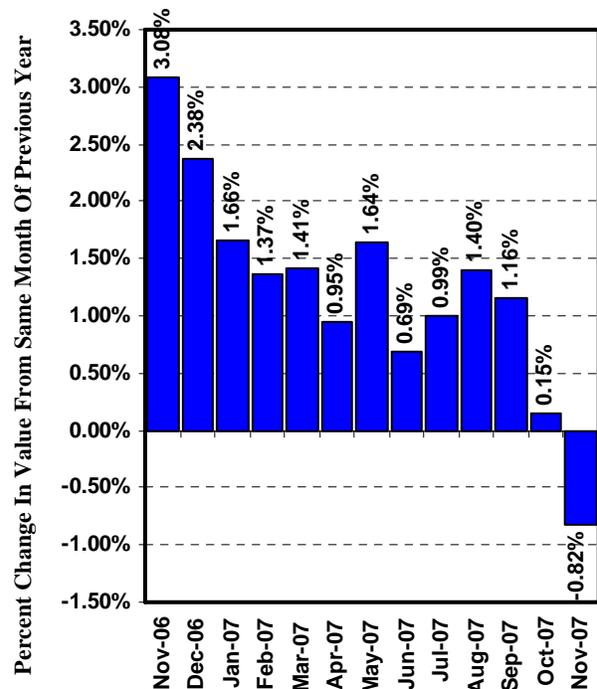
JANUARY 2008

County Economy Slows in November Outlook Remains Weak In Early 2008

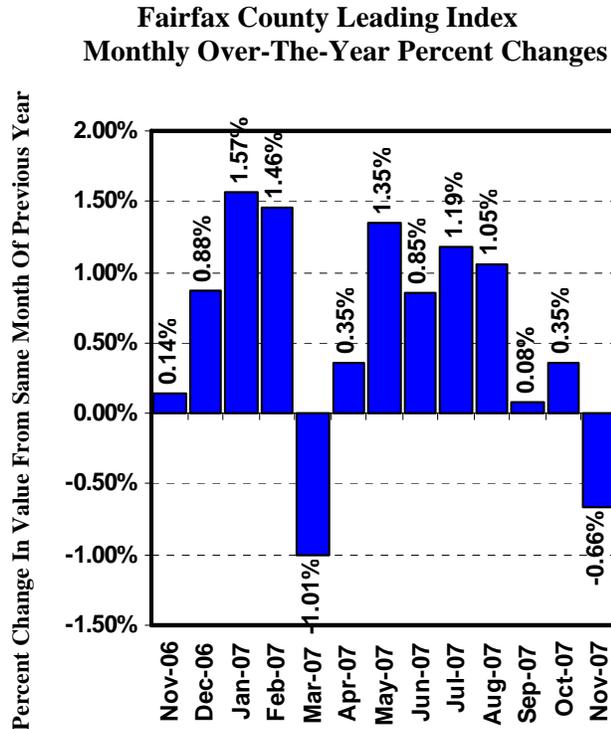
The **Fairfax County Coincident Index**, which represents the current state of the County's economy, decreased to 144.0 for a loss of 1.11 percent. This was the Index's fifth monthly decline in six months. On a monthly over-the-year basis, the Coincident Index fell below its same-month value in 2006 by 0.82 percent. November's decrease was the Index's first monthly over-the-year loss following forty-seventh consecutive monthly over-the-year gains. In November, three of the Index's four components were negative.

- Sales tax revenues, adjusted for inflation and seasonal variation, decreased in November for the second time in three months;
- Total employment recorded a small decrease continuing a pattern of little month-to-month change; and,
- Transient occupancy tax collections, adjusted for inflation and seasonal variation, declined for a second month after increasing in August and September; while,
- Consumer confidence (in the present) increased for the first time in four 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 119.48 in November for a loss of 0.39 percent. The Leading Index now has declined on a month-to-month basis for five months in a row. On a monthly over-the-year basis, the Leading Index also declined in November losing 0.66 percent. This is the first decline on a monthly over-the-year basis since March 2007. Since turning positive 53 months ago, the Leading Index has been up in 47 months and down in 7 months. In November, three of the Index's four indicators contributed to its decrease.

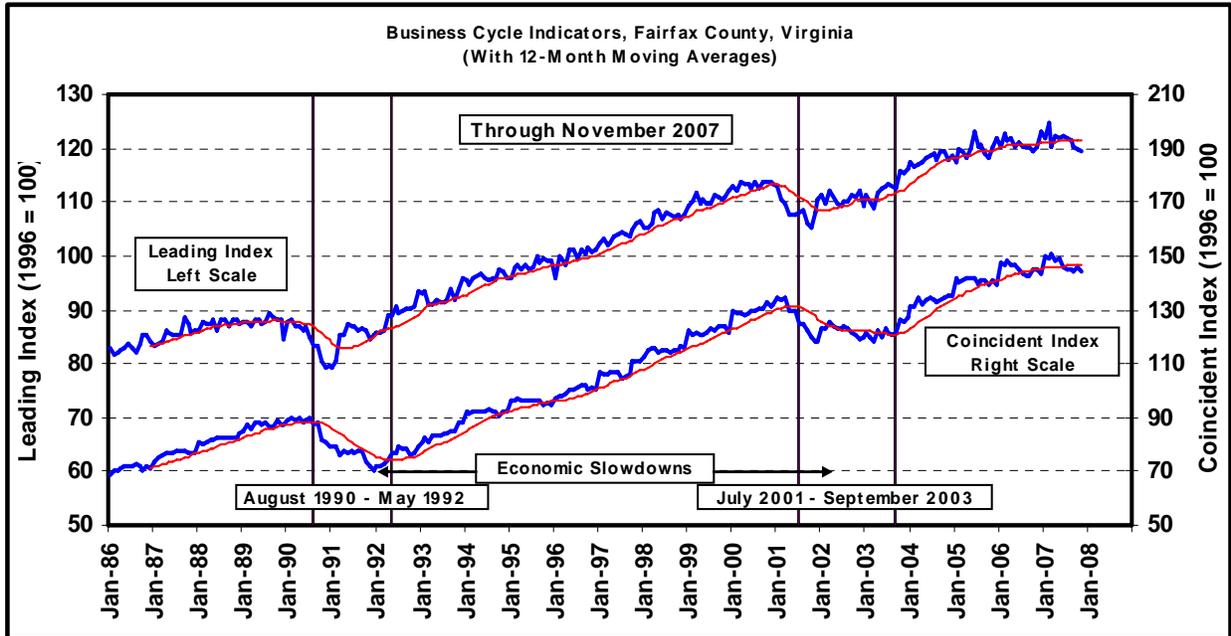
- Consumer expectations (consumer confidence six months hence) fell for a fourth month;
- Initial claims for unemployment insurance increased (worsened) on a seasonally adjusted basis for the fourth time in five months; and,
- Automobile registrations fell for the fourth time in five months: while,
- Residential building permits increased following two monthly declines.

The Fairfax County economy weakened in November following a one-month gain in October continuing its pattern of slowing growth that has characterized the second half of 2007. Job growth and consumer spending were both down in November. The only bright spots were the increase in residential building permits and turn around in consumer confidence. Still, the trend towards slower growth has become well established and the negative performance of the Leading Index points to this trend continuing well into 2008. Most indicative of this continuing weakness is the increase in initial claims for unemployment insurance and marginal changes in payroll employment and rise in unemployment.

CURRENT CONDITIONS

The Coincident Index, which measures the County's current economic performance, fell in November for the fifth time in six months. As a result, the economy's long-term growth trend over the full year has flattened following four years of continuous growth. On a monthly over-the-year basis, the Coincident Index registered its first decline in November after 47 consecutive monthly gains. November's Index value was lower than it was in November 2006.

The two drivers of the County economy—payroll job growth and consumer spending—have both weakened since mid-year 2007. Job growth has been flat since July although for the year job growth is up 1.7 percent or by an estimated 11,000 jobs. Still, the current month-to-month performance of the labor market is not as strong as it was earlier in the year. Initial claims for unemployment insurance are rising, up in four of the last five months and are 20 percent higher than a year ago. The number of unemployed residents in the County has increased by 13,452 since November 2006. These changes in the labor market reflect the loss of self-employed, part-time and contract workers many of whom were related to the housing market—agents, brokers, construction and landscape workers, furniture and home furnishings sales personnel. The slowdown in the residential market—new construction and resales—is clearly taking its toll on the local economy.



Source: Center for Regional Analysis, George Mason University

Consumer spending is key to economic growth. With retail sales down for the second time in three months and consumer confidence sagging, there is growing concern that weaker consumer spending could drive the economy into a recession. So far, the slowdown in consumer spending and in the economy's other fundamental indicators is not pointing to recession but rather a weak performance at least through the first quarter of 2008.

NEAR-TERM OUTLOOK

The Leading Index provides some clues as to how weak this economic performance will be over the coming months and how long it will last. The Leading Index has been negative on a month-to-month basis for five months and fell below November's same-month value in 2006 for the first time in eight months.

The Leading Index is presenting an unambiguous signal that the County's economic expansion will be slower or could stop all together over the coming several months. Consumers have pulled back from the purchase of "big ticket" items; automobile sales are down in four of the last five months and consumer expectations—how the economy is expected to perform in 6 months—are 24.4 percent lower in November 2007 than in November 2006. The signs of slower growth are wide

spread and they are tied closely to the slowdown in new residential construction and the credit crunch that is constraining the easy availability of capital for home loans, as well as, business investment.

How long will this slowdown persist and how deep will it get? Fairfax County's inventory of unsold housing—new and resales—has peaked and has diminished slightly over the second half of 2007. While demand may have softened and mortgage monies have become harder to get, the County is generating net new jobs and the household income of its homebuyers is higher than in most other jurisdictions.

As consumer confidence stabilizes in response to gains in bank liquidity (the Fed's lowering of interest rates is helping), the housing market and retail sales, in general, will strengthen by March or April 2008 and the County's economy should reflect positive signs of renewed expansion by the second quarter of 2008. Between now and then, the economy will be vulnerable to national and global forces; however, its fundamental strength—stable federal spending—should insulate it from the full impact of negative performance of the national economy during the first quarter of 2008, should this occur.

Fairfax County, Virginia Economic Indicators Current and Previous Months

Economic Indicator	Estimates			Percent Change	
	Nov-07 Prelim.	Oct-07 Final	Nov-06 Final	Oct-07 to Nov-07	Nov-06 to Nov-07
Fairfax County Business Cycle Indicators					
Coincident Index (1996 = 100)	143.98	145.59	145.17	-1.11	-0.82
Leading Index (1996 = 100)	119.48	119.95	120.27	-0.39	-0.66
Fairfax County Coincident Index Components					
Estimated Total Wage & Salary Employment (Seasonally Adjusted)	645,057	645,187	631,605	-0.02	2.13
<i>Estimated Total Wage & Salary Employment (Unadjusted)</i>	653,744	648,065	640,111	0.88	2.13
Transient Occupancy Tax (\$'000=1987, Seasonally Adjusted)	790	797	855	-0.82	-7.51
<i>Transient Occupancy Tax (\$'000=Current)</i>	1,574	1,942	1,632	-18.95	-3.57
Sales Tax Receipts (\$'000=1987, Seasonally Adjusted)	9,397	11,490	9,803	-18.21	-4.14
<i>Sales Tax Receipts (\$'000=Current, Unadjusted)</i>	13,163	15,603	13,005	-15.64	1.21
South Atlantic Consumer Confidence	133.8	130.1	150.2	2.84	-10.92
Fairfax County Leading Index Components					
New Automobile Registrations (Seasonally Adjusted)	4,799	4,965	3,779	-3.33	27.01
<i>Automobile Registrations (Unadjusted)</i>	4,143	5,082	3,262	-18.48	27.01
Initial Unemployment Claims (Seasonally Adjusted)	1,173	1,126	979	4.22	19.89
<i>Initial Unemployment Claims (Unadjusted)</i>	1,049	1,130	875	-7.17	19.89
Building Permits, Total Number of Units (Seasonally Adjusted)	87	66	162	32.42	-46.48
<i>Building Permits, Total Number of Units (Unadjusted)</i>	76	67	142	13.43	-46.48
South Atlantic Consumer Expectations	76.2	85.1	100.8	-10.46	-24.40
Fairfax County Labor Force					
Total Labor Force (Seasonally Adjusted)	596,384	594,374	588,408	0.34	1.36
<i>Total Labor Force (Unadjusted)</i>	600,394	597,156	592,365	0.54	1.36
Employed Labor Force (Seasonally Adjusted)	582,932	581,225	575,822	0.29	1.23
<i>Employed Labor Force (Unadjusted)</i>	587,760	584,722	580,592	0.52	1.23
Unemployed Labor Force (Seasonally Adjusted)	13,452	13,149	12,586	2.31	6.88
<i>Unemployed Labor Force (Unadjusted)</i>	12,634	12,434	11,773	1.61	7.31
Unemployment Rate (Percent, Seasonally Adjusted)	2.3%	2.2%	2.1%	--	--
<i>Unemployment Rate (Percent, Unadjusted)</i>	2.1%	2.1%	2.0%	--	--

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 vice 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.

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

We are on the web at:
[www.fairfaxcounty.gov/economic/
economic_index.htm](http://www.fairfaxcounty.gov/economic/economic_index.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