



Fairfax County Economic Index

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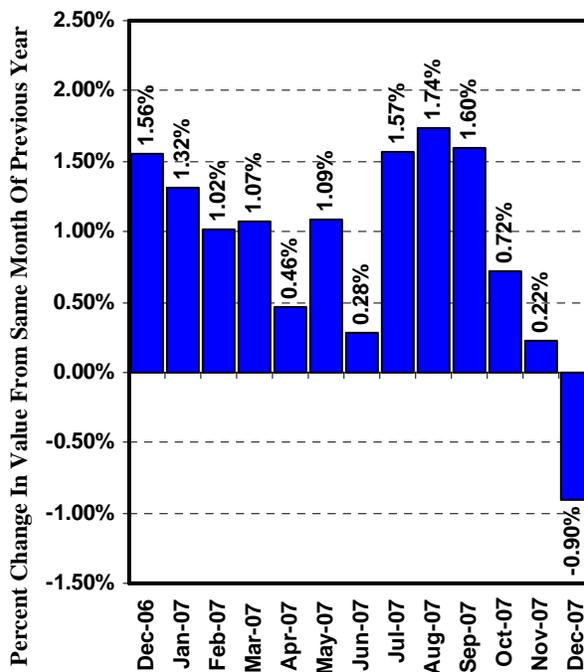
FEBRUARY 2008

County Economy Slows Further in December Outlook Remains Weak in 2008

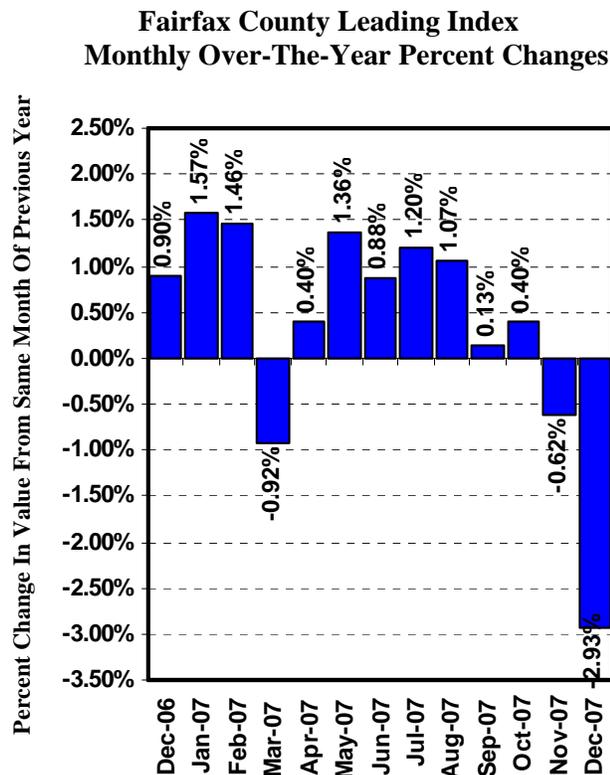
The **Fairfax County Coincident Index**, which represents the current state of the County's economy, decreased to 133.63 from November's revised value of 136.76 for a loss of 2.3 percent in December. This was the Index's fourth monthly decline dating from August. On a monthly over-the-year basis, the Coincident Index fell below its same-month value in 2006 by 0.90 percent. December's decrease was the Index's first monthly over-the-year loss following forty-eight consecutive monthly over-the-year gains. In December, three of the Index's four components were negative.

- Sales tax revenues, adjusted for inflation and seasonal variation, decreased in December for the third time in four months;
- Total employment was negative for a second month; and,
- Consumer confidence (in the present) registered a sharp decline and has now been down in four of the last five months; while,
- Transient occupancy tax collections, adjusted for inflation and seasonal variation, increased for the sixth 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 119.27 in December for a loss of 0.20 percent. The Leading Index now has declined on a month-to-month basis for six months in a row. On a monthly over-the-year basis, the Leading Index also declined in December losing 2.93 percent. This was its second decrease on a monthly over-the-year basis since March 2007. Since turning positive 54 months ago, the Leading Index has been up in 47 months and down in 8 months. In December, two of the Index's four indicators contributed to its decrease.

- Consumer expectations (consumer confidence six months hence) fell for a fifth month; and,
- Automobile registrations fell for the fifth time in six months; while,
- Residential building permits increased for a second month; and,
- Initial claims for unemployment insurance declined (improved) on a seasonally adjusted basis following two monthly increases.

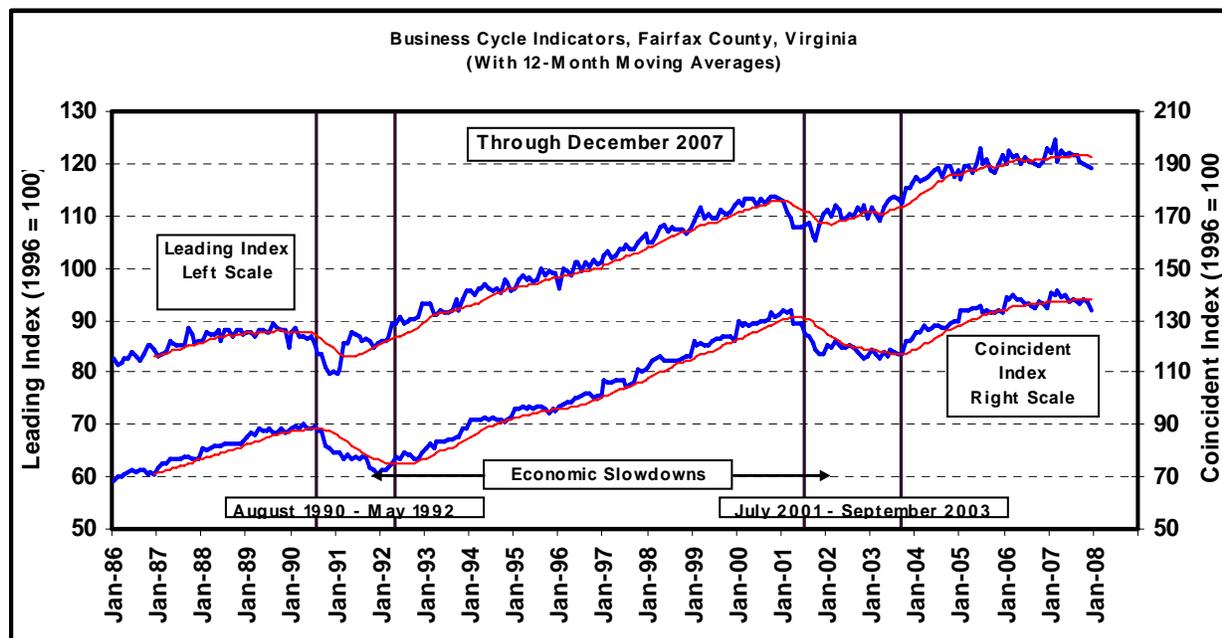
The Fairfax County economy weakened further in December continuing its slowing trend that began in August. Two key indicators of the economy's health, job growth and consumer spending, were both down in December as they were in November. One bright spot was the increase in residential building permits that grew for a second month and may be providing an early sign of renewed residential building activity that would help stimulate renewed economic expansion. The trend towards slower growth has become well established over the second half of 2007 and the continuing negative performance of the Leading Index suggests that this trend will continue at least through mid-2008.

CURRENT CONDITIONS

The County's economy experienced a rapid deceleration during the fourth quarter of 2007 after registering a strong expansion during the third quarter. This slowdown can be seen in the five month-to-month decreases in the Coincident Index that brought its December value lower than it was in December in 2006. December was the first time in more than four years that the Index's month over-the-year value was negative. The flattening of the County's growth rate over the past twelve months is confirmed by the slope of the 12-month moving average trend.

The dramatic decline in consumer confidence in December, dropping a record 19.9 percent, underscores a major threat to the County's economy in the coming months. In Fairfax County, given its general economic vitality, growth in consumer spending depends largely on consumer confidence. Consumers have become increasingly anxious over the state of the housing market, the continuing turbulence in the financial markets, and the concerns associated with a possible recession at the national level.

Consumers have been expecting the economy to back off of its peak for a long time as seen in the consumer expectations index that has been reflecting pessimism since mid-2004 and was 34 percent lower in December than a year ago. Weaker consumer spending is consistent with these low and declining levels of consumer confidence. Indicative of these trends, sales tax revenues were down on a month-to-month basis for three months and new automobile registrations have been down for two months.



Source: Center for Regional Analysis, George Mason University

The general weakness that has emerged in the County's economy over the fourth quarter can be seen in slower job growth. Revised employment data (seasonally adjusted) for the County shows that employment growth on a month-to-month basis has been marginally negative for nine months and that for the twelve months ending in December, the County added only 7,543 net new full-time jobs. Job growth among the County's residents increased by only 4,000 inclusive of part-time, contract and self-employed workers. These trends can be seen in the County's labor market with unemployment still low at 2.2 percent but moving up from 1.9 percent in December of 2006. This increase in the unemployment rate translated into an increase of 2,312 unemployed County residents.

NEAR-TERM OUTLOOK

The Leading Index is pointing to further slowing of the County's economy. The Index, which leads the economy by 9 to 12 months, has been down for six months on a month-to-month basis and went negative on a monthly over-the-year basis in November. Its sharp 2.9 percent decline in December suggests that the slowdown in the County's economy could accelerate before regaining its footing. The key indicators remain consumer expectations—how consumers think the economy will be performing in six months, initial claims for unemployment insurance, and residential construction.

When consumers feel more confident about the economy, they will resume their spending. Automobile sales will be an early indication that consumers have regained their comfort level. Initial claims for unemployment insurance provide a direct measure of labor market conditions; lay offs lead the economy to slower growth.

With the Federal Reserve Board cutting its discount rate twice in January and likely to cut this rate again at its March 18th meeting, it is sending a clear message to the business community and investors that it is committed to supporting the economy's recovery. The stimulus legislation signed by the President on February 14th reinforces this message that the federal government can act to stabilize and stimulate the economy to prevent it going into a recession (declining for 6 consecutive months). These dual messages are designed to generate consumer confidence and to stimulate increased consumer spending.

If this message is received by consumers, the positive effects should become evident in March retail sales. Also, with lower mortgage interest rates and an increase in the dollar value of conventional mortgages, housing transactions should accelerate and prices should stabilize. March could be the transition month. It will all depend on consumers and investors. As the Fairfax County economy is fundamentally strong, its slowdown will not be deep by historic standards and it should be able to reaccelerate quickly once consumers get back into their normal spending patterns.

Fairfax County, Virginia Economic Indicators Current and Previous Months

Economic Indicator	Estimates			Percent Change	
	Dec-07 Prelim.	Nov-07 Final	Dec-06 Final	Nov-07 to Dec-07	Dec-06 to Dec-07
Fairfax County Business Cycle Indicators					
Coincident Index (1996 = 100)	133.63	136.78	134.85	-2.30	-0.90
Leading Index (1996 = 100)	119.27	119.51	122.86	-0.20	-2.93
Fairfax County Coincident Index Components					
Estimated Total Wage & Salary Employment (Seasonally Adjusted)	586,569	588,476	579,026	-0.32	1.30
<i>Estimated Total Wage & Salary Employment (Unadjusted)</i>	<i>600,049</i>	<i>595,605</i>	<i>592,333</i>	<i>0.75</i>	<i>1.30</i>
Transient Occupancy Tax (\$'000=1987, Seasonally Adjusted)	924	894	823	3.36	12.27
<i>Transient Occupancy Tax (\$'000=Current)</i>	<i>1,458</i>	<i>1,780</i>	<i>1,252</i>	<i>-18.09</i>	<i>16.43</i>
Sales Tax Receipts (\$'000=1987, Seasonally Adjusted)	8,513	9,397	8,998	-9.41	-5.39
<i>Sales Tax Receipts (\$'000=Current, Unadjusted)</i>	<i>16,882</i>	<i>13,163</i>	<i>16,901</i>	<i>28.25</i>	<i>-0.11</i>
South Atlantic Consumer Confidence	105.1	131.2	148.3	-19.89	-29.13
Fairfax County Leading Index Components					
New Automobile Registrations (Seasonally Adjusted)	4,482	4,799	6,400	-6.62	-29.97
<i>Automobile Registrations (Unadjusted)</i>	<i>4,070</i>	<i>4,143</i>	<i>5,812</i>	<i>-1.76</i>	<i>-29.97</i>
Initial Unemployment Claims (Seasonally Adjusted)	1,090	1,173	868	-7.13	25.52
<i>Initial Unemployment Claims (Unadjusted)</i>	<i>1,087</i>	<i>1,049</i>	<i>866</i>	<i>3.62</i>	<i>25.52</i>
Building Permits, Total Number of Units (Seasonally Adjusted)	99	87	140	14.43	-29.09
<i>Building Permits, Total Number of Units (Unadjusted)</i>	<i>78</i>	<i>76</i>	<i>110</i>	<i>2.63</i>	<i>-29.09</i>
South Atlantic Consumer Expectations	68.3	75.7	104.8	-9.78	-34.83
Fairfax County Labor Force					
Total Labor Force (Seasonally Adjusted)	594,318	596,384	588,014	-0.35	1.07
<i>Total Labor Force (Unadjusted)</i>	<i>599,417</i>	<i>600,394</i>	<i>593,059</i>	<i>-0.16</i>	<i>1.07</i>
Employed Labor Force (Seasonally Adjusted)	579,291	582,902	575,291	-0.62	0.70
<i>Employed Labor Force (Unadjusted)</i>	<i>585,939</i>	<i>587,730</i>	<i>581,893</i>	<i>-0.30</i>	<i>0.70</i>
Unemployed Labor Force (Seasonally Adjusted)	15,027	13,482	12,723	11.46	18.11
<i>Unemployed Labor Force (Unadjusted)</i>	<i>13,478</i>	<i>12,664</i>	<i>11,166</i>	<i>6.43</i>	<i>20.71</i>
Unemployment Rate (Percent, Seasonally Adjusted)	2.5%	2.3%	2.2%	--	--
<i>Unemployment Rate (Percent, Unadjusted)</i>	<i>2.2%</i>	<i>2.1%</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. Wage and salary employment estimates exclude Fairfax City and Falls Church.

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We are on the web at:
www.fairfaxcounty.gov/economic/economic_index.htm

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