

Fairfax County Economic Index

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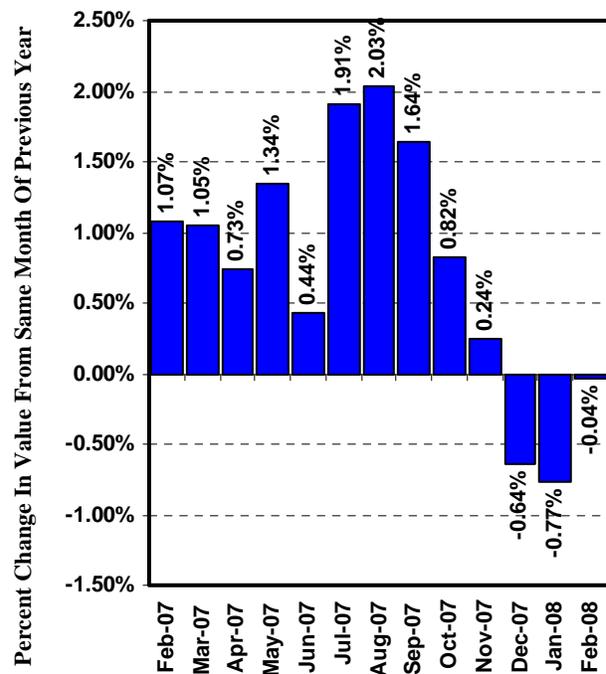
APRIL 2008

Fairfax County Economy Slows in February While Outlook Remains Positive

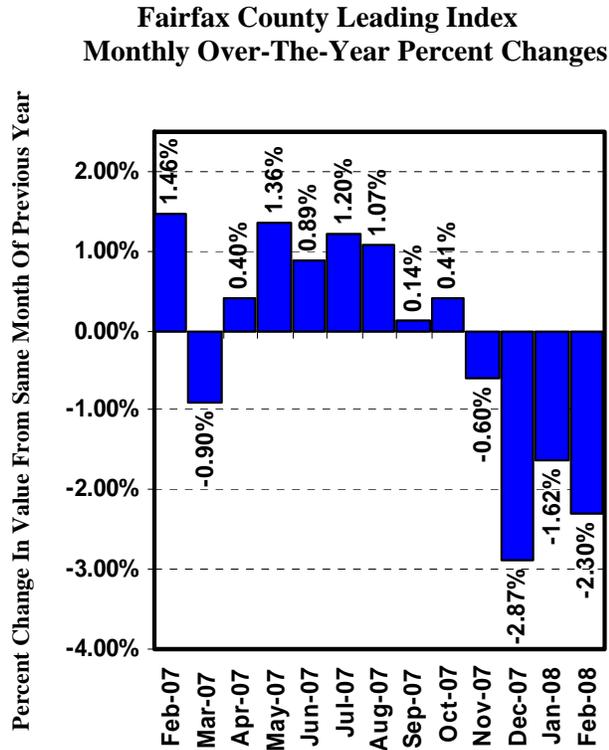
The **Fairfax County Coincident Index**, which represents the current state of the County's economy, decreased slightly to 138.61 from January's revised value of 138.66 for a loss of 0.05 percent. This was the Index's third monthly loss in four months. On a monthly over-the-year basis, the Coincident Index continued to track marginally lower falling 0.04 percent below its February 2007 level. February's monthly over-the-year loss was its third in a row following forty-eight consecutive monthly over-the-year gains. In February, two of the Index's four components were negative.

- Sales tax revenues, adjusted for inflation and seasonal variation, decreased in February and has now been negative in three of the last four months; and,
- Total employment was lower (on a seasonally adjusted basis) and has decreased in three of the previous four months; while,
- Consumer confidence (in the present) improved for the second consecutive month; and,
- Transient occupancy tax collections, adjusted for inflation and seasonal variation, increased for the eighth 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, increased to 121.55 in February for a gain of 1.36 percent. This gain in the Leading Index was its second in a row following six consecutively monthly decreases. On a monthly over-the-year basis, however, the Leading Index was negative for a fourth consecutive month falling 2.30 percent below its same-month value in 2007. Since turning positive 57 months ago, the Leading Index has been up in 47 months and down in 10 months. In February, two of the Index's four indicators contributed to its increase over January.

- Automobile registrations were higher in February after declining for three months; and,
- Residential building permits increased for a fourth month; while,
- Consumer expectations (consumer confidence six months hence) fell for the sixth time in seven months; and,
- Initial claims for unemployment insurance increased (worsened) on a seasonally adjusted basis for the fourth time in five months.

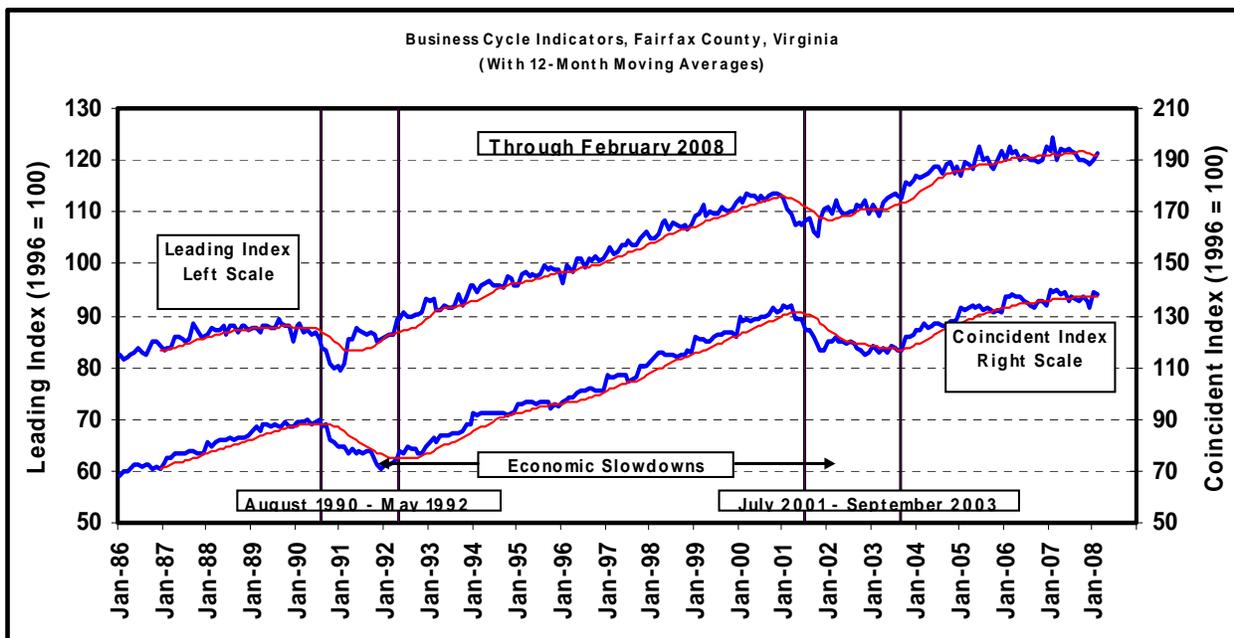
The Fairfax County economy experienced some softening in February with consumer spending and labor market conditions weakening from their January levels. The two key indicators of the economy's health, job growth and consumer spending, that had slowed at the end of 2007 and turned positive in January, resumed their downward trends in February. These patterns mirrored national trends in February. The one bright spot in the economy's recent performance—the increase in residential building permits—grew again in February for a fourth consecutive month providing further evidence that the residential construction sector may be poised for a rebound. However, while the Leading Index was positive for a second month, it continues to lag last year's levels pointing to slower growth continuing into the future.

CURRENT CONDITIONS

The Coincident Index nearly equalized in February after experiencing its first monthly over-the-year declines in December and January since the beginning of the expansion almost five years ago. Still, behind these numbers are several that do not bode well for the economy's near-term health.

It is often stated that consumer spending accounts for two-thirds of the economy; in good times even more. However, in leaner times consumers tend to reduce their spending as they pay off debt and increase savings. Consumer spending potential is further dampened by slower job growth and increasing job loss. Higher energy prices and the resultant increase in food prices, and the prices of imports (due to the devaluation of the dollar against many foreign currencies) also have undermined consumer spending. With consumer expectations standing at a thirty-five year low, consumers appear unlikely to take on major new spending commitments, especially for luxury goods. The decreases in sales tax revenues experienced by Fairfax County in three of the last four months suggests that consumers have pulled back from the recent spending trend line. Not only did February's retail sales tax revenue decline 11.7 percent (seasonally and inflation adjusted) from January 2008, it was also 7.9 percent less than in February 2007.

February's labor market data show that the County's labor market has weakened over the past year. Net new job growth stalled in February with a loss of 0.51 percent from January although the



Source: Center for Regional Analysis, George Mason University

total job base was still higher than in February 2007. More indicative of the County's weaker labor market conditions are the growth of initial claims for unemployment insurance claims that were up 36.4 percent from a year ago (February 2007). Initial claims have grown in nine of the last twelve months contributing to higher unemployment rates. While still low by comparison to national conditions, the County's unemployment rate has increased from 2.1 percent to 2.6 percent between February 2007 and February 2008, a gain of 2,727 unemployed County residents over this 12-month period.

NEAR-TERM OUTLOOK

With weaker consumer spending and slower job growth, the County's economic outlook is also weaker. The Leading Index, which projects the economy's likely performance nine to twelve months in advance, has tracked lower since mid-2007, with month-to-month declines in six consecutive months. Since the beginning of 2008, the Leading Index has been positive. While its gains in 2008 have not off-set its losses during the second half of 2007 and the long-term trend line is still pointing down, there are several positive signs that point to a stronger future economy.

Residential building permits, the first commitment to renewed residential construction, have

increased on a month-to-month basis for four consecutive months with February experiencing a sharp gain of 277.1 percent. February's gain was also up 136.4 percent from February 2007. As overbuilding and the resultant slowdown in residential construction helped to slow the local and national economies starting in 2006, the resumption of residential building will be an important stimulus for the economy. While this rebound in new residential construction maybe six months away, the growth of permits is a positive sign that the correction in the residential construction sector is almost complete.

New automobile registrations also improved in February increasing 24.1 percent from January. Ordinarily, the sale of autos falls during an economic slowdown as consumers defer large-value purchases. In fact, auto sales in Fairfax County have been lower in recent months and even with February's gain from January, it still was 21.5 percent lower than in February 2007.

The County's economy has slowed and will likely continue to grow slowly through the summer months. However, the County economy should begin to exhibit greater strength, as reflected in stronger performances of its economic indicators, by the fall to continue into 2009.

Fairfax County, Virginia Economic Indicators Current and Previous Months

Economic Indicator	Estimates			Percent Change	
	Feb-08 Prelim.	Jan-08 Final	Feb-07 Final	Jan-08 to Feb-08	Feb-07 to Feb-08
Fairfax County Business Cycle Indicators					
Coincident Index (1996 = 100)	138.61	138.68	138.66	-0.05	-0.04
Leading Index (1996 = 100)	121.55	119.92	124.42	1.36	-2.30
Fairfax County Coincident Index Components					
Estimated Total Wage & Salary Employment (Seasonally Adjusted)	597,337	600,420	592,874	-0.51	0.75
<i>Estimated Total Wage & Salary Employment (Unadjusted)</i>	579,347	580,929	575,019	-0.27	0.75
Transient Occupancy Tax (\$'000=1987, Seasonally Adjusted)	1,039	972	861	6.92	20.69
<i>Transient Occupancy Tax (\$'000=Current)</i>	1,588	1,593	1,376	-0.31	15.37
Sales Tax Receipts (\$'000=1987, Seasonally Adjusted)	8,482	9,610	9,208	-11.74	-7.89
<i>Sales Tax Receipts (\$'000=Current, Unadjusted)</i>	11,117	11,725	11,531	-5.19	-3.59
South Atlantic Consumer Confidence	116.1	113.2	154.6	2.56	-24.90
Fairfax County Leading Index Components					
New Automobile Registrations (Seasonally Adjusted)	5,233	4,217	6,666	24.09	-21.50
<i>Automobile Registrations (Unadjusted)</i>	4,177	3,786	5,321	10.33	-21.50
Initial Unemployment Claims (Seasonally Adjusted)	1,235	1,219	905	1.26	36.40
<i>Initial Unemployment Claims (Unadjusted)</i>	1,319	1,639	967	-19.52	36.40
Building Permits, Total Number of Units (Seasonally Adjusted)	424	112	179	277.17	136.42
<i>Building Permits, Total Number of Units (Unadjusted)</i>	357	88	151	305.68	136.42
South Atlantic Consumer Expectations	68.0	78.6	118.1	-13.49	-42.42
Fairfax County Labor Force					
Total Labor Force (Seasonally Adjusted)	597,780	601,047	597,962	-0.54	-0.03
<i>Total Labor Force (Unadjusted)</i>	589,032	589,755	589,211	-0.12	-0.03
Employed Labor Force (Seasonally Adjusted)	582,901	585,307	585,809	-0.41	-0.50
<i>Employed Labor Force (Unadjusted)</i>	573,712	573,782	576,574	-0.01	-0.50
Unemployed Labor Force (Seasonally Adjusted)	14,879	15,740	12,152	-5.47	22.43
<i>Unemployed Labor Force (Unadjusted)</i>	15,320	15,973	12,637	-4.09	21.23
Unemployment Rate (Percent, Seasonally Adjusted)	2.5%	2.6%	2.0%	--	--
<i>Unemployment Rate (Percent, Unadjusted)</i>	2.6%	2.7%	2.1%	--	--

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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